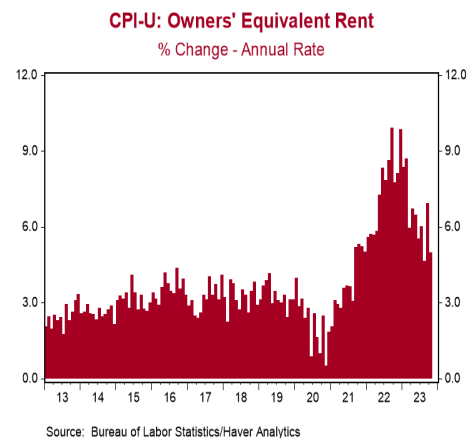
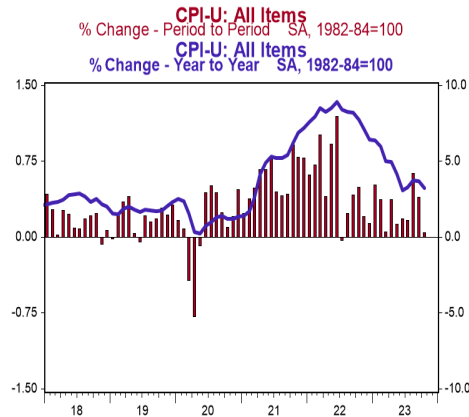


October CPI

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- The Consumer Price Index (CPI) was unchanged in October, below the consensus expected +0.1%. The CPI is up 3.2% from a year ago.
- Energy prices declined 2.5% in October, while food prices rose 0.3%. The “core” CPI, which excludes food and energy, rose 0.2% in October, below the consensus expected +0.3%. Core prices are up 4.0% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.2% in October and are up 0.8% in the past year. Real average weekly earnings are unchanged in the past year.



Implications: The Federal Reserve has gained traction in its fight against inflation, but the battle is not fully over. More important, we continue to believe that a monetary policy tight enough to bring inflation down is also tight enough to induce an eventual recession. Consumer prices were unchanged in October on an overall basis, but were held down by volatile energy prices, which fell 2.5% after outsized increases the prior two months. The year-ago comparison moved down to 3.2% – a huge improvement versus the 7.7% reading in the year ending October 2022. However, inflation is still a problem, with consumer prices up 4.4% at an annualized rate in the last three months. Stripping out energy and its often-volatile counterpart – food prices (+0.3% in October) – “core” prices rose 0.2% and the twelve-month comparison ticked down to a still elevated 4.0% – not as much of an improvement versus the 6.3% reading ending in October 2022. Taking a deeper look under the inflation hood, rental inflation – both for actual tenants and the imputed rental value of owner-occupied homes – continues to run hot, up 0.4% for the month and running close to or above a 6% annualized rate over three-, six-, and twelve-month timeframes. Meanwhile, a subset category of inflation that the Fed is watching closely – known as the “Super Core” – which excludes food, energy, other goods, and housing rents, rose 0.2% in October. This measure is up 3.7% in the last twelve months but has been accelerating of late; up at a 4.9% annualized rate in the last three months. No matter which way you cut it, inflation is still not where the Fed wants it to be. With interest rates now above inflation across the yield curve and the M2 measure of the money supply down 3.6% in the past year, money is tight. But it remains to be seen how quickly this will translate into bringing inflation down to the Fed’s 2.0% target. It’s important to note that even when the inflation target is eventually reached, prices will remain permanently adjusted versus their pre-COVID level. For example, food prices have now risen thirty-nine months in a row and are up 24% since before COVID, owing to the significant money creation over the last few years. As for the economy, we continue to believe a recession is on the way. Equity investors should remain vigilant as we navigate these unprecedented times.

CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-23	Sep-23	Aug-23	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.0%	0.4%	0.6%	4.4%	3.1%	3.2%
Ex Food & Energy	0.2%	0.3%	0.3%	3.4%	3.2%	4.0%
Ex Energy	0.2%	0.3%	0.3%	3.3%	3.1%	3.9%
Energy	-2.5%	1.5%	5.6%	19.5%	3.1%	-4.5%
Food	0.3%	0.2%	0.2%	3.1%	2.7%	3.3%
Housing	0.3%	0.6%	0.3%	4.8%	4.2%	5.2%
Owners Equivalent Rent	0.4%	0.6%	0.4%	5.5%	5.8%	6.8%
New Vehicles	-0.1%	0.3%	0.3%	1.9%	0.5%	1.9%
Medical Care	0.3%	0.2%	0.2%	2.8%	1.1%	-0.8%
Services (Excluding Energy Services)	0.3%	0.6%	0.4%	5.3%	4.7%	5.5%
Real Average Hourly Earnings	0.2%	-0.1%	-0.4%	-1.1%	0.7%	0.8%

Source: U.S. Department of Labor