

DAILY GLOBAL COMMENTARY

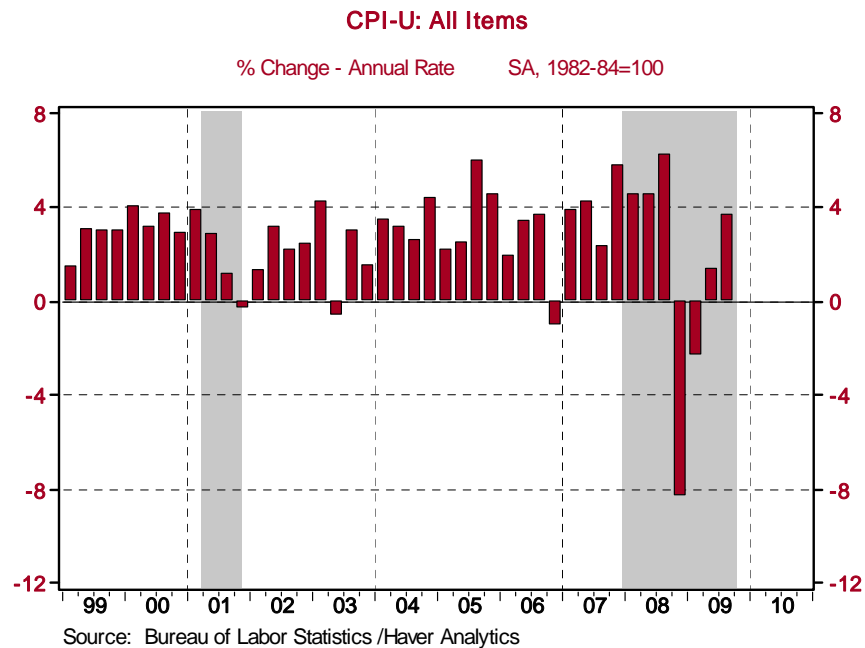
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Inflation Remains a Non-Issue, For Now October 15, 2009

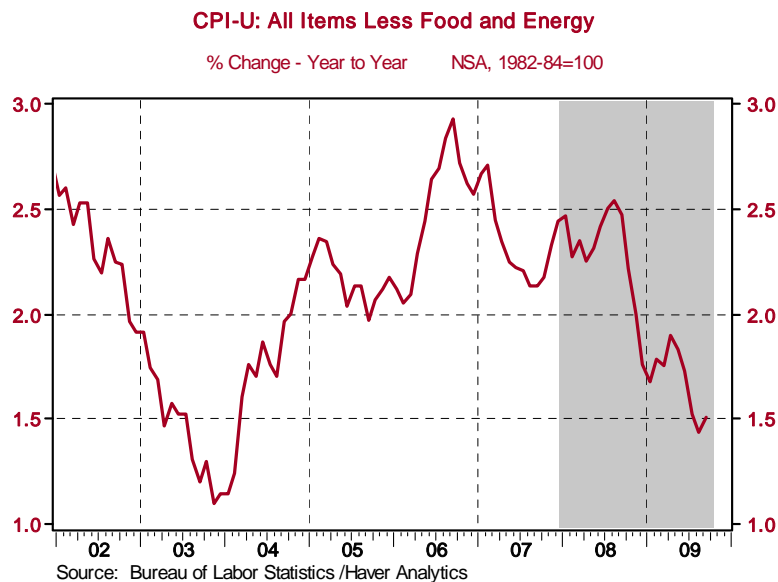
The Consumer Price Index (CPI) increased 0.2% in September after a 0.4% increase in the prior month. In the third quarter, the CPI has increased 3.6% after a 1.3% gain in the second quarter. On a year-to-year basis, the CPI fell 1.3% in September. The food price index dropped 0.1% during September vs. a 0.1% increase in August. The energy price index moved up 0.6% in September compared with a 4.6% jump in the previous month.

Chart 1



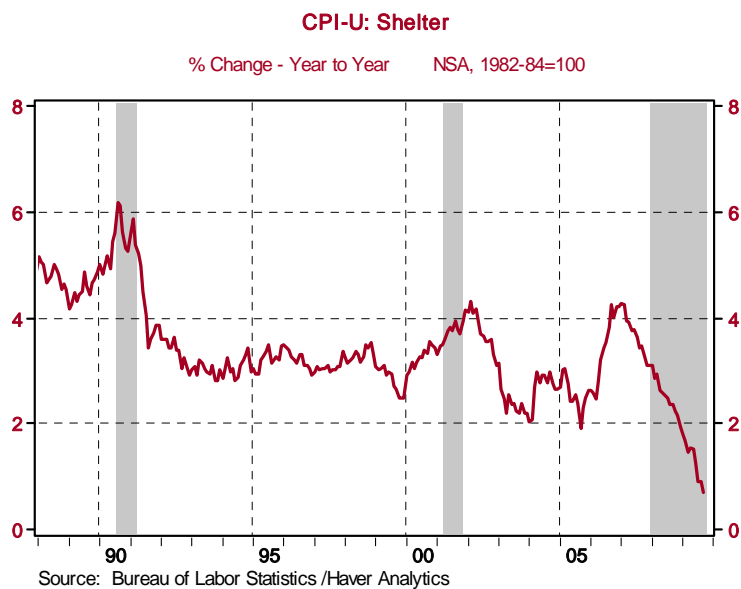
The core CPI, which excludes food and energy, increased 0.2% in September after two consecutive monthly gains of 0.1%. The core CPI has risen 1.5% from a year ago in September, following a cycle low gain of 1.44% in August.

Chart 2



The shelter component of the CPI held steady in September. On a year-to-year basis, the shelter price index advanced 0.7% from a year ago (see chart 3) and is the reason for the contained core price index.

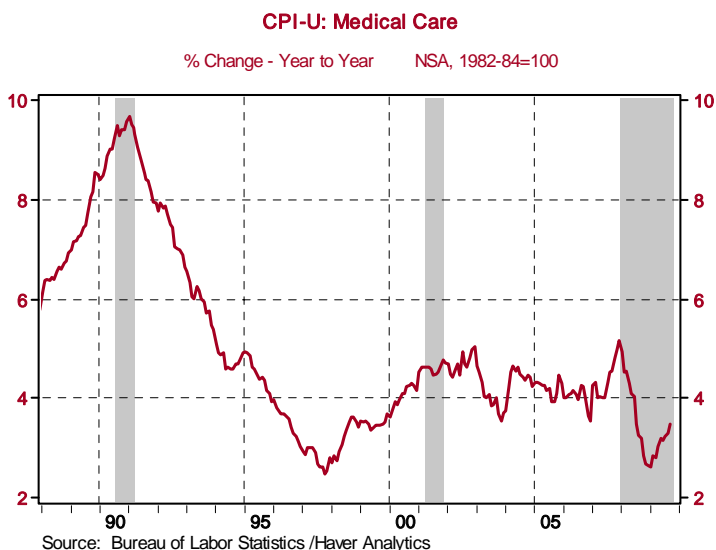
Chart 3



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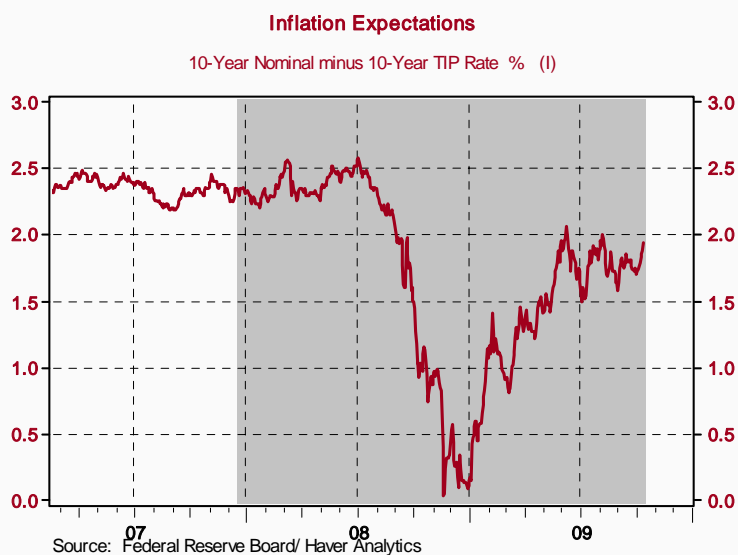
In September higher prices for new cars (+0.4%), used cars (+1.6%), cigarettes (+1.0%), air travel (+2.1%) and the 0.4% increase of the medical care price index led to the 0.2% increase of the core CPI. The medical care price index has moved up from a 2.6% year-to-year increase in January to 3.5% year-to-year gain in September.

Chart 4



The Fed is in the most favorable spot in the near term with regard to inflation because the excess capacity in the economy allows the Fed to maintain a focus on economic growth and leave inflation on the back burner, for now. Moreover, inflation expectations are also non-threatening (see chart 5) at the present time. Inflation will emerge as a major concern after there is self-sustaining economic growth.

Chart 5



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Consumer Price Index – September 2009

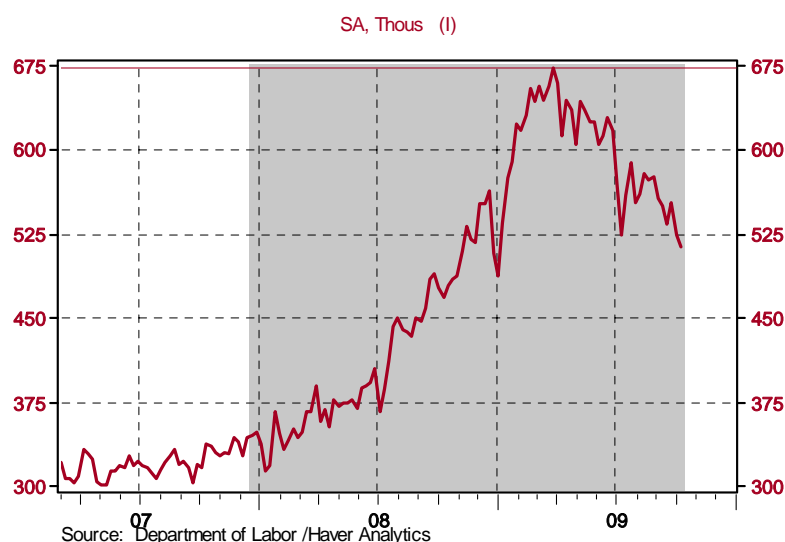
	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	Sep-09 yoy	Sep-08 yoy	Dec-08 yoy
CPI - ALL ITEMS	0.2	2.7	2.5	2.9	-1.3	4.9	0.1
CORE - ALL ITEMS LESS FOOD & ENERGY (77.75)*	0.2	2.0	1.3	1.9	1.5	2.5	1.8
CPI ALL ITEMS LESS ENERGY (92.4)	0.1	1.5	0.9	1.4	1.2	3.0	2.4
FOOD (14.63)	-0.1	-1.1	-1.1	-1.3	-0.2	6.2	5.9
ENERGY (7.62)	0.6	16.8	21.1	21.6	-21.6	23.1	-21.3
SHELTER (33.2)	0.0	0.6	-0.3	0.6	0.7	2.4	1.9
COMMODITIES (39.6)	0.3	5.5	4.2	6.0	-4.2	6.6	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.3	2.9	0.9	2.5	1.6	0.5	-0.6
SERVICES (60.4)	0.1	0.8	1.3	0.8	0.8	3.8	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.1	1.6	1.4	1.6	1.5	3.2	2.7
FRB CLEVELAND MEDIAN CPI	0.0	1.4	0.8	1.0	1.5	3.2	2.9

The Quandary Between Initial Claims and Total Continuing Claims

Initial jobless claims fell 10,000 to 514,000 during the week ended October 10. This reading is the lowest since March 2009 when initial jobless claims peaked (see chart 6) at 674,000. This is good news, firms are not hiring but the pace of firing has slowed. Continuing claims, which lag initial claims by one week, declined 75,000 to 5.992 million and the insured unemployment rate moved down one notch to 4.5%. Continuing claims have held above the 6-million mark for six straight months.

Chart 6

Unemployment Insurance: Initial Claims, State Programs

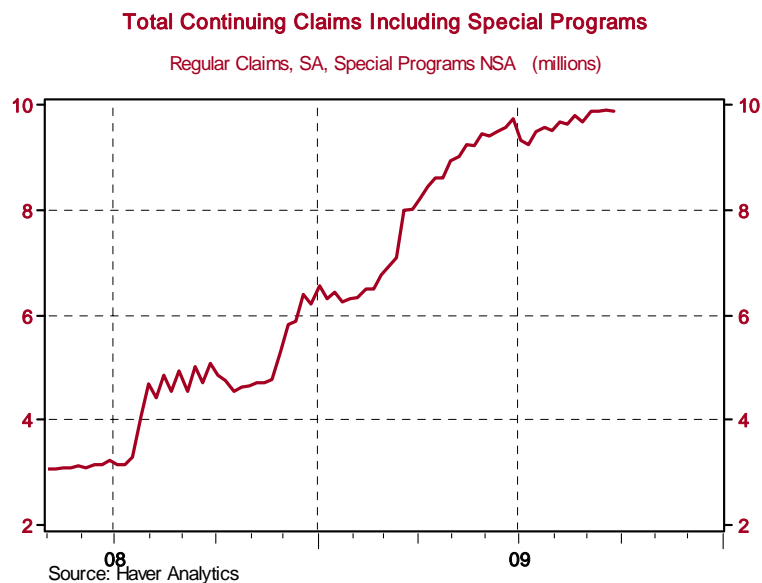


However, total claims including continuing claims and claims under the Extended Benefits Program and Emergency Unemployment Compensation Program have advanced

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to nearly 10 million (see chart 7). The good news here is that total continuing claims appear to have peaked; they have held between 9.86 million and 9.89 million for the four weeks ended September 26, with the latest weekly reading at the lower end of this range. We will be tracking these numbers closely for signs of improvement in the labor market.

Chart 7



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