

DAILY GLOBAL  
COMMENTARY

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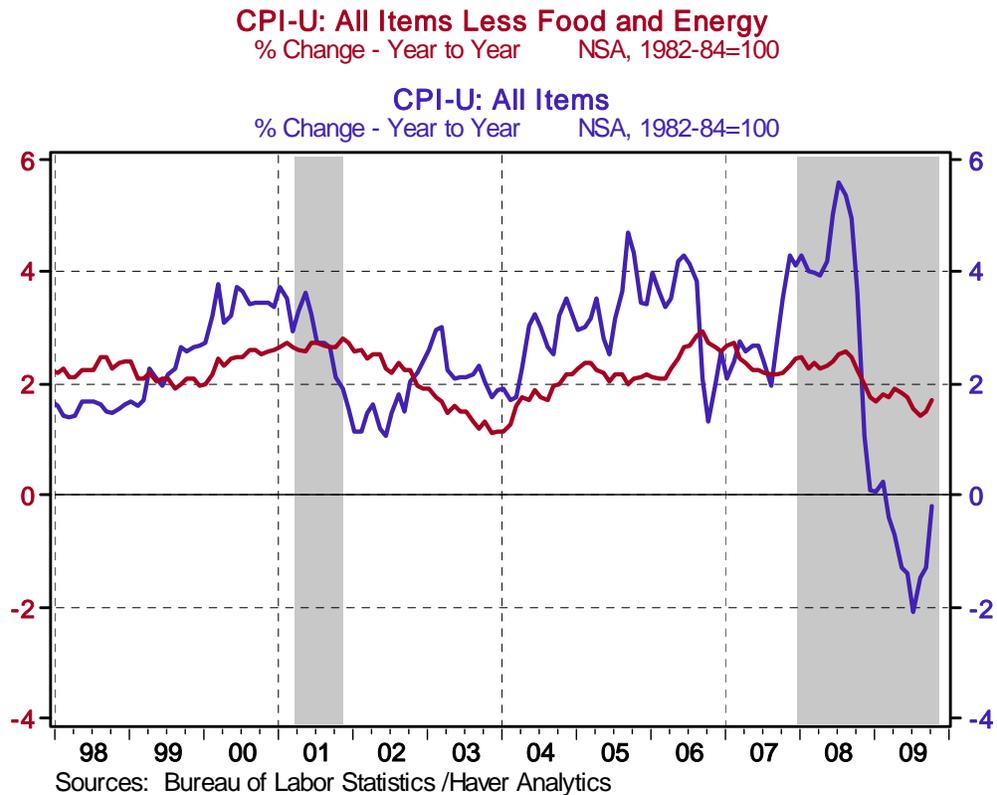
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## Higher Prices for Cars and Energy Lifted CPI in October

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The Consumer Price Index (CPI) rose 0.3% in October after a 0.2% increase in the prior month. The details of the October CPI report indicate that higher prices for cars and energy were the predominant gains. The energy price index moved up 1.5% in October, with higher gasoline prices accounting for a large part of the increase. Food prices inched up only 0.1% following a 0.1% decline in the prior month. Year-to-date the CPI has risen at annual rate of 2.7% and from a year ago it fell 0.2%.

Chart 1



The core CPI, which excludes food and energy, increased 0.2% in October. According to the BLS, higher prices for used and new cars and light trucks were responsible for 90% of the increase in the core CPI. Given the soft demand for cars and shaky balance sheets of households, it is unlikely that higher prices will stick in the months ahead. Airfares also advanced in October. The medical care price index posted a moderate increase of 0.2%, while the shelter index held steady. Apparel prices declined 0.4% in October. From a year ago, the core CPI increased 1.7% and is inching closer to the Fed's threshold of tolerance (2.0%). However, the concentration of the gains in prices among two components -- energy and autos -- suggests that we need to wait for

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more evidence before we can confirm that inflation is problematic. Inflation will continue to rank low among the Fed's priorities compared with economic growth and financial stability in the near term.

#### Consumer Price Index – October 2009

	% change	annualized % change			% change		
	prior month	year-to-date	3 mo. ago	6 mo. ago	Oct-09 yoy	Oct-08 yoy	Dec-08 yoy
<b>CPI - ALL ITEMS</b>	0.3	2.7	3.6	3.5	-0.2	3.7	0.1
<b>CORE - ALL ITEMS LESS FOOD &amp; ENERGY (77.75)*</b>	0.2	2.0	1.7	1.7	1.7	2.2	1.8
<b>CPI ALL ITEMS LESS ENERGY (92.4)</b>	0.2	1.5	1.4	1.3	1.4	2.8	2.4
FOOD (14.63)	0.1	-0.9	0.2	-0.8	-0.6	6.3	5.9
ENERGY (7.62)	1.5	17.0	30.1	31.3	-14.0	11.5	-21.3
SHELTER (33.2)	0.0	0.6	0.4	0.3	0.7	2.2	1.9
COMMODITIES (39.6)	0.5	5.6	6.4	7.2	-1.7	3.9	-4.1
COMMODITIES LESS FOOD & ENERGY (21.5)	0.4	3.2	1.8	2.4	2.3	0.1	-0.6
SERVICES (60.4)	0.1	0.9	1.8	1.1	0.9	3.5	3.0
SERVICES LESS ENERGY SERVICES (56.3)	0.1	1.5	1.6	1.5	1.5	3.0	2.7
<b>FRB CLEVELAND MEDIAN CPI</b>	0.1	1.2	1.2	0.9	1.5	3.1	2.9

\* - Figures in parentheses denote the relative importance of each category in the CPI.

#### Housing Starts – Permits Show a More Stable Trend

Total housing starts fell 10.6% to an annual rate of 529,000, the lowest since April. The 35% plunge in construction of apartment building to a new record low of 53,000 units brought down the overall reading. The 6.9% drop in single-family starts to 476,000 is the lowest since May. Uncertainty about the extension of the \$8000 tax credit for first-time home buyers is seen as one of the reasons for the weakness in home construction. If this is accurate, a rebound is likely in November because the tax credit program has been extended to April 2010. Regionally, construction of new homes fell in all four regions of the nation. The relatively larger declines occurred in the Northeast (-18.8%) and Midwest (-10.6%).

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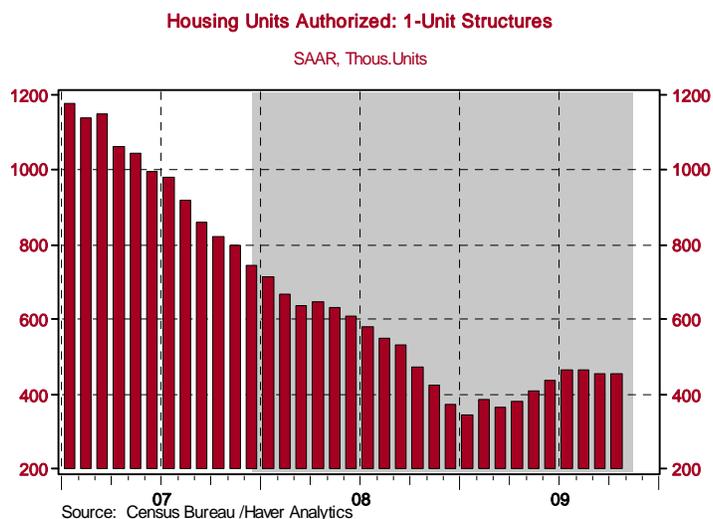
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Chart 2



Permits for the construction of all new homes declined 4.00% to 552,000 in October, while permits for new single-family homes was virtually flat (-0.2%). Permits for new single-family homes have held nearly steady four months (see chart 3). This aspect of the report implies that housing activity is likely to show small gains going forward.

Chart 3



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