

CPI Gassed Up and Driven Faster

U.S. consumer prices rose 0.3% in October, pumped by energy prices (e.g., gasoline +1.6%), driven also by vehicle prices. The latter was much more pronounced in the core CPI, accounting for more than 80% of the 0.2% gain (which itself was a tenth above the consensus call). New vehicle prices rose 1.6% in October, the most in 28 years! This is a surprising result given the 0.5% and 5.2% declines registered by new car and light truck prices, respectively, at the producer level. Manufacturer-to-dealer discounts do occasionally take time to filter through to retail prices. Moreover, given that October retail prices represent average selling prices over the prior 30 days they might still be reflecting the post-cash-for-clunkers rebound in prices. The clunkers program is having a more persistent and profound impact on used vehicle prices, by culling vehicles available for sale by about 678,000. In October, used vehicle prices rose 3.4%, the most in 29 years! Indeed, more favourable used vehicle pricing is a key reason why some of the automakers have decided to re-enter the leasing segment. Elsewhere in the core CPI, bracing apparel and recreation prices and a flat owners' equivalent rent provided a partial offset to racing vehicle prices.

(seasonally adjusted)	(month/month % change)			(% change : a.r.)	
	Oct	Sep	Aug	6-month	12-month
All Items	0.3	0.2	0.4	3.5	-0.2
Ex. Food & Energy	0.2	0.2	0.1	1.7	1.7
Food	0.1	-0.1	0.1	-0.8	-0.6
Energy	1.5	0.6	4.6	31.3	-14.0
Clothing	-0.4	0.1	-0.1	1.6	1.4
Transportation	1.4	0.8	2.3	21.0	-3.8
New Vehicles	1.6	0.4	-1.3	4.8	3.8
Gasoline	1.6	1.0	9.1	80.6	-17.9
Medical Care	0.2	0.4	0.3	3.2	3.5
Recreation	-0.4	-0.1	0.1	0.2	0.0
Education	0.3	0.0	0.5	4.7	4.9
Owners' Equiv. Rent	0.0	-0.1	0.1	0.2	1.2

The Bottom Line: Core inflation has nudged back into the Fed's long-run forecast range of 1.7% to 2.0%, and could drift up a bit further owing to unfavourable year ago comparisons. Price discounting turned aggressive heading into last year's holiday shopping season, in the wake of the intensification of the global credit crisis. It's unclear how aggressive discounting will be this year, but we'll get a sense with Black Friday looming next week. In any event, with massive amounts of slack lurking throughout the U.S. economy, particularly in labour markets, any modest acceleration in annual core inflation should prove fleeting.

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