



DAILY ECONOMIC COMMENTARY

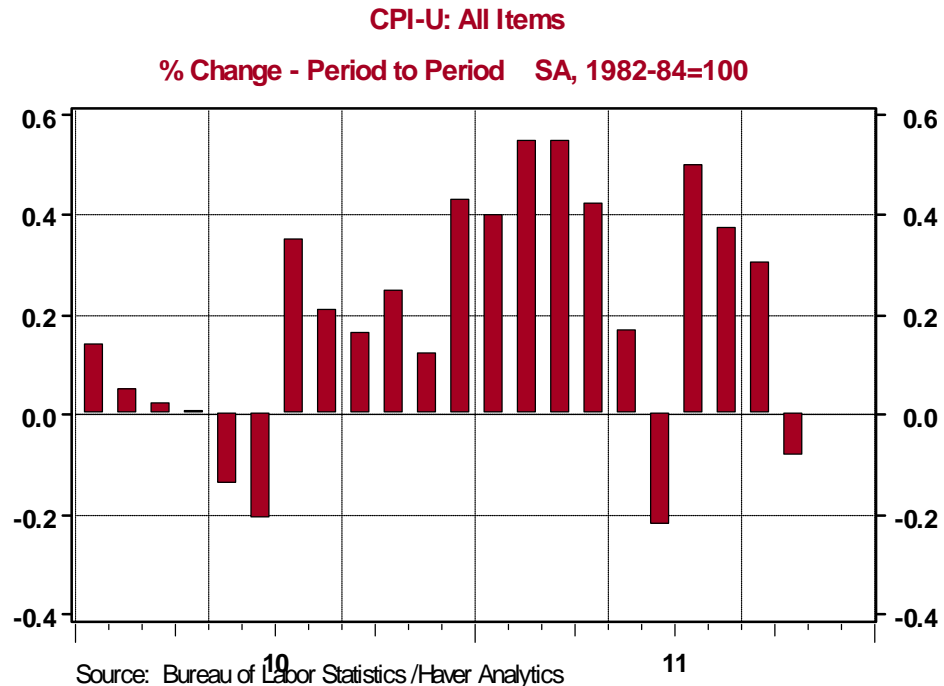
October Consumer Price Index – Signs of Moderation are Noteworthy

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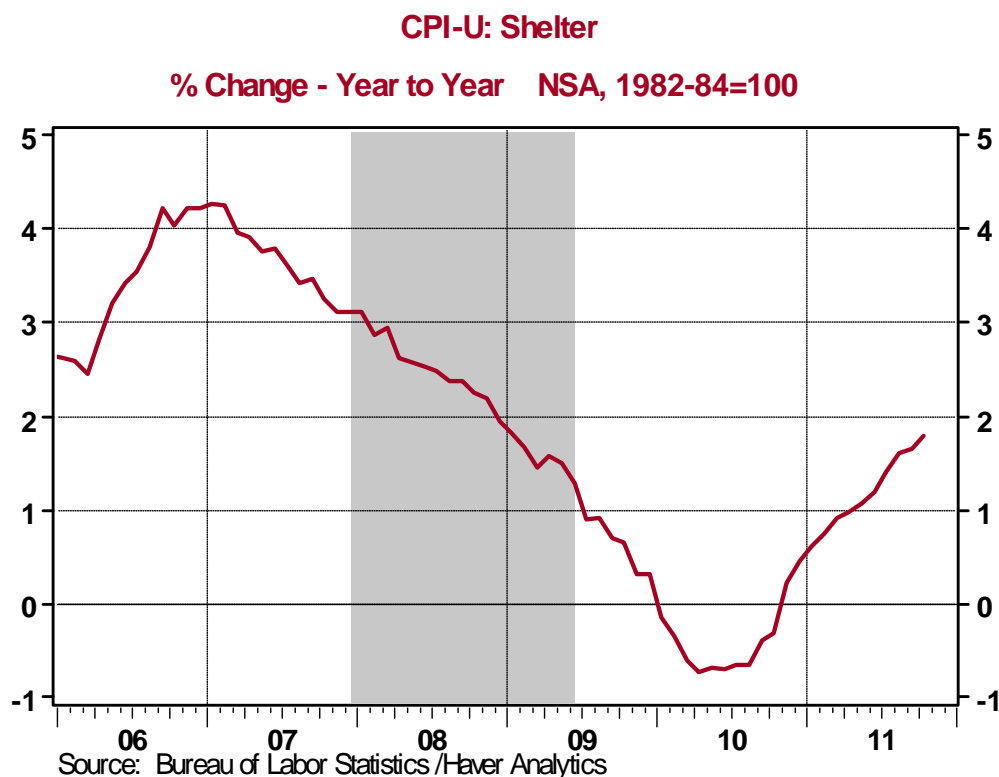
The Consumer Price Index (CPI) fell 0.1% in October after three months of hefty gains which ranged between 0.3% and 0.5%. The energy price index dropped 2.0% in October and more than offset increases of all other prices. Lower prices of gasoline and household energy accounted for the overall decline of the energy price index. The food price index rose only 0.1% in October, marking the smallest increase since December 2010.

Chart 1



The core CPI, which excludes food and energy, increased 0.1% in October, matching the increase posted in September. Lower prices for cars, a moderate 0.2% gain of the shelter index, and small declines in airfares and recreation costs helped to hold down the core CPI in October. The 0.5% increase in medical care costs, the rapid escalation of rental costs (+0.4%) and the 0.4% gain in apparel prices were the components that provided a lift to the core CPI in October. Of these three price hikes, rental costs and medical care expenses are the problematic categories. The shelter cost index has reversed the decelerating trend of prior months (see Chart 2)

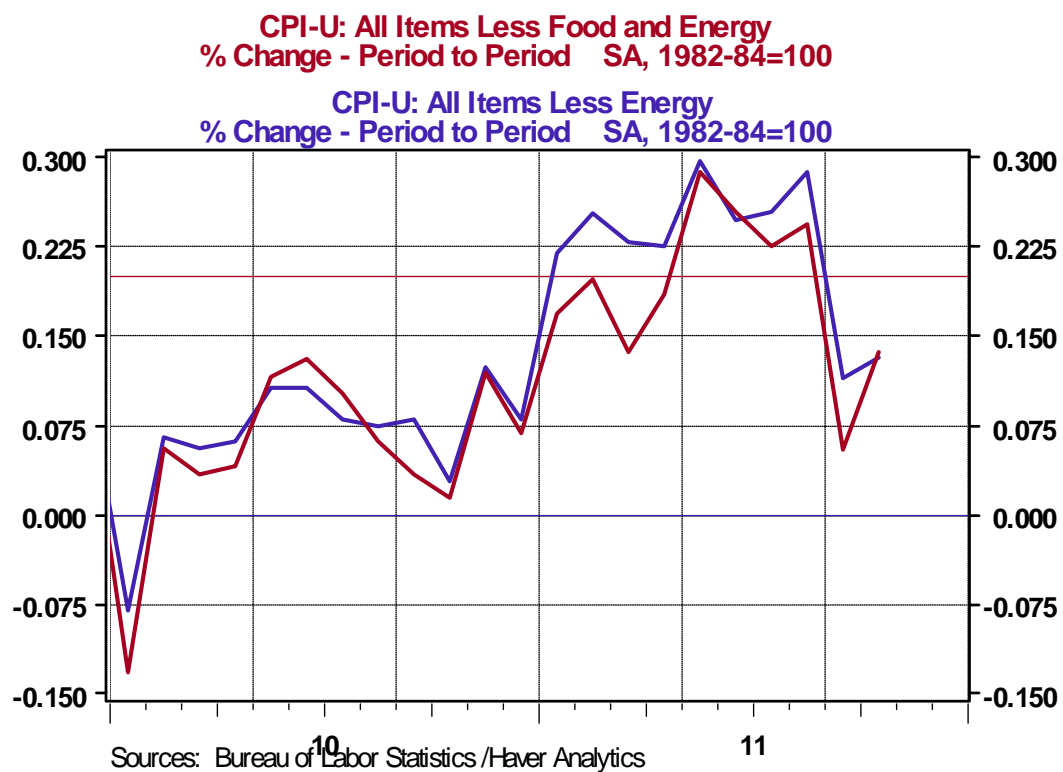
Chart 2



Energy costs have played a significant role in recent months in raising the overall CPI. Excluding energy, the CPI moved up only 0.1% in October, after a similar increase in September. The core CPI and CPI excluding energy have both posted gains below 0.15% in September and October (see Chart 3). Although the year-to-year gains of both the CPI and core CPI are beyond the threshold of the FOMC's tolerance levels, the recent month-to-month moderation of the CPI is consistent with expectations of the FOMC.

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Chart 3



Incoming economic data present a mixed picture of the economy. The strength of positive economic signals is not strong enough to expect strong self-sustained economic growth in the quarters ahead. In addition, headwinds from the European debt crisis could trim the pace of the real GDP growth. The Fed is expected to engage in large-scale asset purchases in the early-part of 2012 to address the elevated unemployment situation and sluggish pace of economic growth.

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Consumer Price Index – October 2011

	% change	annualized % change		% change	
	prior month	3 mo. ago	6 mo. ago	Oct-11 yoy	Dec-10 yoy
CPI - ALL ITEMS	-0.1	2.4	2.1	3.5	1.5
CORE - ALL ITEMS LESS FOOD & ENERGY (77.18)*	0.1	1.8	2.4	2.1	0.8
CPI ALL ITEMS LESS ENERGY (90.9)	0.1	2.2	2.7	2.5	0.9
FOOD (13.74)	0.1	4.4	4.2	4.7	1.5
ENERGY (9.08)	-2.0	4.6	-3.2	14.2	7.7
SHELTER (32.0)	0.2	2.0	2.4	1.8	0.4
COMMODITIES (40.1)	-0.4	2.4	1.8	5.7	2.0
COMMODITIES LESS FOOD & ENERGY (20.9)	-0.1	0.2	2.8	2.1	-0.4
SERVICES (59.9)	0.2	2.4	2.2	2.1	1.2
SERVICES LESS ENERGY SERVICES (56.3)	0.2	2.4	2.3	2.1	1.3
FRB CLEVELAND TRIMMED-MEAN CPI	0.1	2.6	2.5	2.5	0.8

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

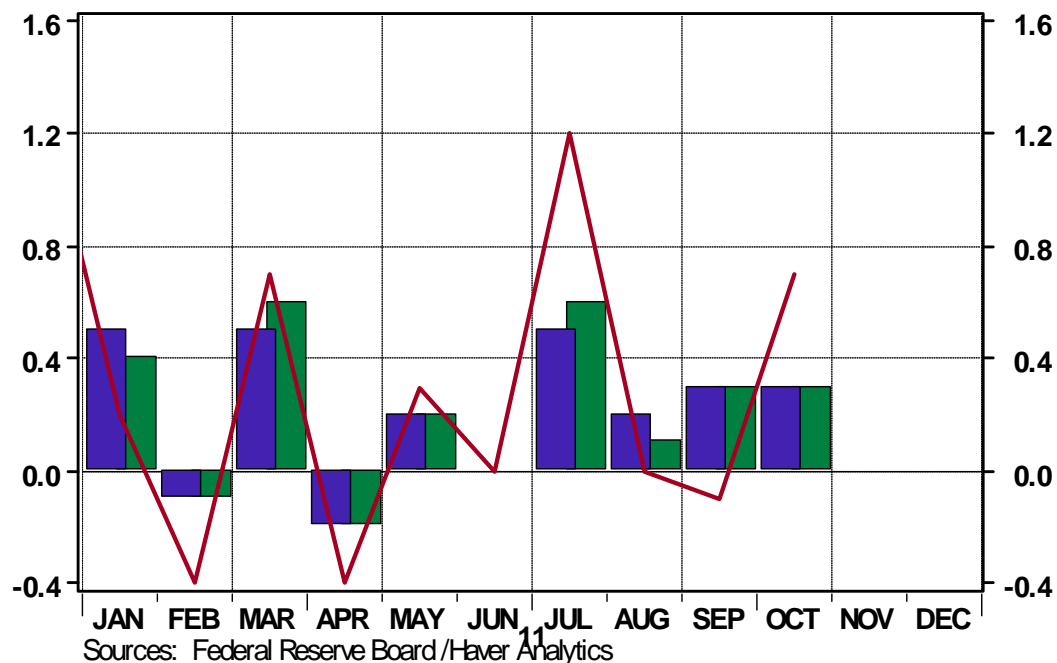
Factory Production Posts Strong Gains, With and Without Autos

Industrial production rose 0.7% in October after a revised decline of 0.1% in the prior month. Factory production, which excludes mining (+2.3%) and utilities (-0.1%), increased 0.5% in October, following a 0.3% gain in the prior month. The 3.1% jump in auto production reflects an increase in autos assembled at an annual rate of 9.3 million units during October vs. 8.75 million units. This represents a big plus for fourth quarter GDP. Excluding autos, factory production moved up 0.3% in October. All in all, these numbers tell a story of strength in factory activity. The operating rate of the nation's industries has risen to 77.8% October from 75.7% a year ago.

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Chart 4

Industrial Production (SA, %Change)
IP: Manufacturing Ex Motor Vehicles and Parts (SA, %Chg)
IP: Manufacturing Ex Selected High Tech & Motor Vehicles & Parts



Industrial Production – October 2011

	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Industrial Production*	0.3	0.0	1.2	0.0	-0.1	0.7
Total Capacity Utilization (%)	76.7	76.7	77.5	77.4	77.3	77.8
Manufacturing output*	0.2	-0.1	0.8	0.3	0.3	0.5
Man. Capacity Utilization (%)	74.4	74.3	74.8	74.9	75.1	75.4
Capacity Utilization ex. High-tech industries (%)	74.3	74.2	74.8	74.9	75.2	75.5

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