ECONOMIC UPDATE
REGIONS
October 16, 2012

September Consumer Price Index/Industrial Production

- The headline CPI rose by 0.6 percent in September with the core CPI up 0.1 percent.
- On a year-over-year basis, the headline CPI rose by 2.0 percent and the core CPI also rose by 2.0 percent.
- Industrial production rose by 0.4 percent in September, with manufacturing output up by 0.2.percent.

The headline CPI came in slightly ahead of expectations, rising by 0.6 percent in September compared to expectations for a 0.5 percent gain. By contrast, the core CPI rose by 0.1 percent, below the expected 0.2 percent increase. On an over-the-year basis, the total CPI and the core CPI both advanced by 2.0 percent in September.

Energy prices rose by 4.5 percent in September, with retail gasoline prices up by 7 percent during the month, which translates into an over-the-year increase of 6.8 percent. Food prices, however, were up by a smaller than anticipated 0.1 percent, with prices for food consumed at home flat for the month (actually down by 0.039 percent unrounded) while prices for food consumed away from home were up by 0.2 percent. Prices for meats, poultry, & fish were down during the month as were prices for fruits and vegetables. Falling vehicle prices, particularly the 1.4 percent decline in used car prices, helped hold down both the headline and core indexes, but this cannot be expected to continue over coming months.

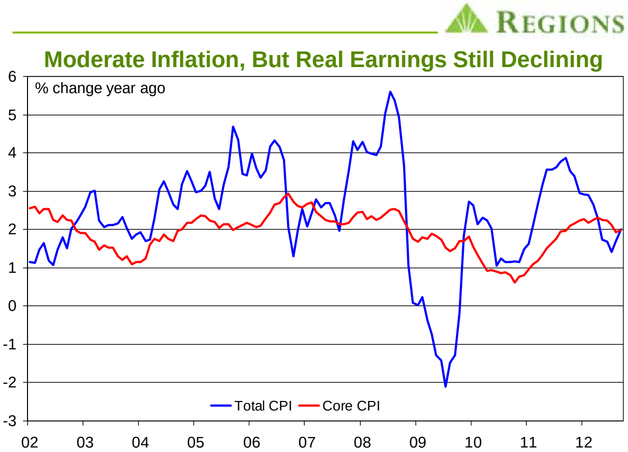
Measures of market rents posted increases in line with those seen over recent months, with owners' equivalent rent up by 0.2 percent and market rents up by 0.3 percent. These gains translate into year-over-year increases of 2.1 percent and 2.7 percent, respectively. Rents will continue to advance over coming months, but what will be worth watching is the rate at which they do so, as many commercial real estate analysts expect growth in rents to moderate as we move through 2013. The extent to which this occurs will play a key role in the path of core inflation, with rents accounting for over one-third of the core CPI.

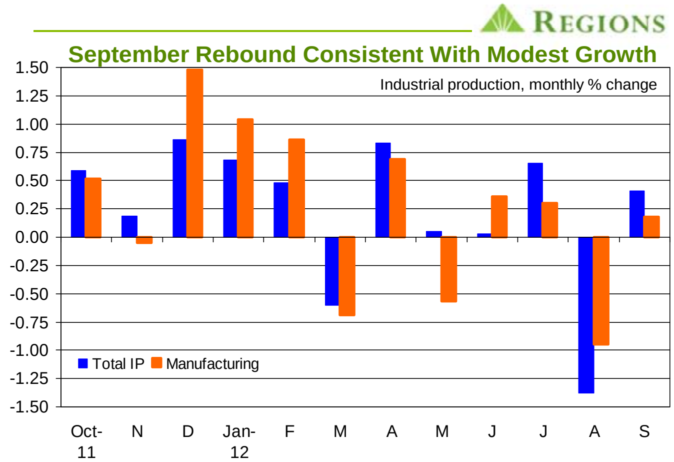
While it may be tempting to look at the path of inflation, both headline and core, and conclude that inflation is not sufficiently threatening to cause the Fed to alter their highly accommodative monetary policy stance, it is worth noting that real hourly earnings declined yet again in September. On an inflation adjusted basis, personal income growth remains quite weak which, the September retail sales data notwithstanding, will act as a constraint on the growth in consumer spending. While it is true that moderation in retail gasoline prices would help firm up inflation adjusted earnings, the main impediment to better income growth remains the considerable amount of slack in the labor market. As long as that remains the case, consumers will be vulnerable to even moderate increases in prices for goods and services.

Industrial production rose by 0.4 percent in September after a 1.4 percent decline in August that at least in part reflected the impact of Hurricane Isaac. Manufacturing output rose by 0.2 percent, surviving another decline in motor vehicle production as output of machinery and computer & electronics products rebounded from back-to-back declines. In addition to the modest gain in manufacturing output, both utilities and mining reported rising output in September.

Along with the ISM manufacturing data, September's data on industrial production will help allay concerns over the health of the factory sector, which has been one of the stalwarts of an otherwise lackluster recovery. Still, year-over-year growth in manufacturing output has slipped to just 3.2 percent, well below the pace seen earlier this year. Recent data on orders for durable goods and for exports of manufactured goods do not suggest we will see accelerating growth in industrial production going forward. So, while the manufacturing sector may be stabilizing, we won't look for much improvement until there is some resolution to the considerable fiscal uncertainty looming over the U.S. economy and the pace of global growth begins to improve.

On the whole, today's data don't materially alter the view of the broader economy, with moderate growth in output coupled with inflation that for now remains mild but is likely to drift higher over coming months.





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