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Weekly Commentary

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Disconnect

Little wonder that those who dedicated their lives to the "dismal science" that is economics would be unimpressed by data that others hail.

Last week's release of the October Consumer Price Index (CPI) showed inflation to have unexpectedly cooled. It rose 7.7% annualized last month versus 8.3% in September. Core CPI, which strips out volatile energy and food prices, slipped to 6.3% from 6.6%. The markets largely cheered the data, but Federal Reserve officials and staff economists—and for that matter, former Fed Chair/now U.S. Treasury Secretary Janet Yellen—only heaped faint praise on it. "Good" was the word most often uttered.

It's a pessimistic view, but not without merit. Price pressures remain much too high and intolerably unstable. Inflation didn't "drop" month to month; prices just increased less than they had. And even then the improvement was slight. But investors have been waiting for an inflection point, and this certainly looks like one. The Fed might meet them halfway, with a 50 basis-point hike in rates at the December Federal Open Market Committee meeting. But two more key inflation measures—another CPI and a Personal Expenditures Index (favored by the Fed)—stand between us and that date. The November reading will be one of the most important in some time.

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