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## **Bets Crystallize on December Rate Hike; Hillary on the Edge**

**Friday, 9:35 a.m. Pacific Daylight Time**

Yesterday's data was on the cool side, with both retail sales and the PPI a bit below expectations. Those data virtually confirmed the Fed will be on hold next week. But today's Consumer Price Index was hot enough to persuade the Fed to raise in December. The core CPI rose by 3 tenths of a point and now is running 2.3 ahead of last year, above the Fed's official target. The main culprit this month was health care costs which rose 1%, the biggest increase in over 30 years. But the Fed's official target is not the CPI, but the core Personal Consumption Deflator, which is running at a much lower 1.6% yoy rate. This is because the health care component of the PCE is running at a much lower rate than what is showing up in the CPI. The difference between the two is that the PCE measures the cost of health care to both employers and employees, while the CPI only measures prices that directly impact consumers. Firms have been passing on the rapid increase in health care costs to their employees in the form of higher deductibles and copays, trying to hold their own costs stable. The milder PCE will be ammunition for the doves to not move prematurely to a higher interest target. Nevertheless, the Fed is clearly on path to raise rates in December, barring sharply negative economic developments.

Stocks have been holding up well despite the volatility. This week's broad-based, capitalization-weighted averages were buoyed by Apple, the largest firm by market value in the world. Despite mostly cautious reviews of its new I-phone, consumers are taking to it strongly, with the faster speed being the biggest draw. Clearly investors will be waiting for the Fed statement next week. I expect the directive to state that the time has come for the Fed to resume the "normalization" of interest rate policy. If the reason is a stronger economy, this might encourage stock investors. This quarter's GDP is running slightly over 3%, a bit below what had been forecast a month ago but still much stronger than the first half.

On the political front, Trump is once again been rising strongly in the polls. Nate Silver's 538 website has the election odds for Clinton at 60-40, or 3-2. In fact, Silver's "Nowcast," which is a projection of what would happen if the election were held today, has Florida and Nevada flipping into the Trump column. This marks the absolute maximum number of states Clinton can lose. If one more state flips, Trump will be president.

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