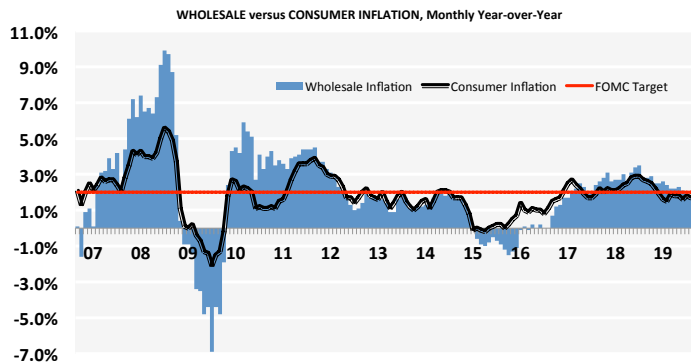


## INFLATION ENVIRONMENT

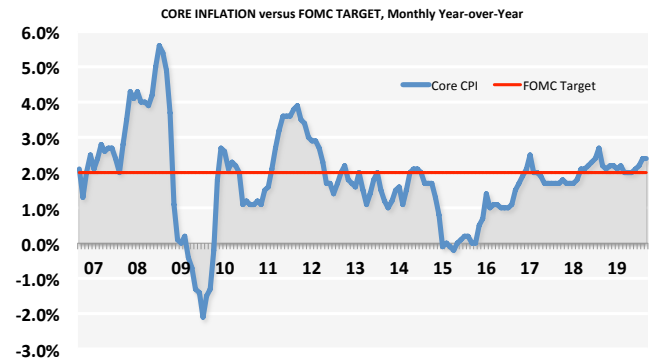
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### INFLATION PROFILE



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### CORE CONSUMER INFLATION



	Monthly Year-over-Year								Annual Rates			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	2015	2016	2017	2018

#### Wholesale Inflation

Overall Wholesale Inflation	1.9%	2.2%	2.2%	1.8%	1.7%	1.7%	1.8%	1.7%	-1.0%	1.7%	2.6%	2.2%
Core Wholesale Inflation	2.3%	2.0%	2.2%	2.3%	2.1%	1.2%	1.9%	1.4%	-0.3%	1.8%	2.3%	2.2%

#### Consumer Inflation

Overall Consumer Inflation	1.5%	1.9%	2.0%	1.8%	1.6%	1.8%	1.7%	1.7%	0.7%	2.1%	2.1%	1.9%
Food	2.0%	2.1%	1.8%	2.0%	1.9%	1.8%	1.7%	1.8%	0.8%	-0.2%	1.6%	1.6%
- Food at Home	1.2%	1.4%	0.7%	1.2%	0.9%	0.6%	0.5%	0.6%	-0.4%	-2.0%	0.9%	0.6%
- Food Away from Home	2.9%	3.0%	3.1%	2.9%	3.1%	3.2%	3.2%	3.2%	2.6%	2.3%	2.5%	2.8%
Energy	-5.0%	-0.4%	1.7%	-0.5%	-3.4%	-2.0%	-4.4%	-4.8%	-12.6%	5.4%	6.9%	-0.3%
- Gasoline	-9.1%	-0.7%	2.9%	-0.2%	-5.4%	-3.4%	-7.1%	-8.2%	-19.7%	9.1%	10.7%	-2.1%
Core Consumer Inflation	2.1%	2.0%	2.1%	2.0%	2.1%	2.2%	2.4%	2.4%	2.1%	2.2%	1.8%	2.2%
- New Vehicles	0.3%	0.7%	1.2%	0.9%	0.6%	0.3%	0.2%	0.1%	0.2%	0.3%	-0.5%	-0.3%
- Used Vehicles	1.1%	0.4%	0.8%	0.3%	1.2%	1.5%	2.1%	2.6%	0.4%	-3.5%	-1.0%	1.4%
- Apparel	-0.8%	-2.2%	-3.0%	-3.1%	-1.3%	-0.5%	1.0%	-0.3%	-0.9%	-0.1%	-1.6%	-0.1%
- Medical care	-1.1%	-0.6%	0.2%	-0.7%	-1.5%	-0.4%	0.1%	-0.3%	1.5%	4.7%	2.3%	-0.5%

**(October 2019)** ... U.S. consumer prices are increasing at a 1.7 percent annualized pace while core consumer inflation, which excludes commodity driven food and energy prices, increasing 2.4 percent. Overall inflation was impacted by a 1.8 percent increase in food costs, fueled by a 3.2 percent increase in food away from home prices. Wholesale inflation advanced 1.7 percent pace reflecting both the lagging effect and oftentimes inability, for producers to pass higher costs to the consumer to avoid adversely impacting the current pace of consumer demand.

A certain level of inflation is needed in a growing economy to increase the value of goods and services produced - contributing to the nation's GDP growth profile.

**Strategically...** During this rate cycle, the current pace of inflation is also putting upward pressure on long-term treasury rates - benchmarks to real estate and long-term capital investment financing. In conjunction with the Federal Reserve's prevailing monetary policy, this could either help drag short-term rates upward or, depending on consumer spending behavior, steepen the yield curve. Competitive loan rates have been compromised by larger credit unions. As a result, market pricing spreads have dropped both in terms of mortgage and consumer A-paper rates.

INFLATION REPORT AND CU STRATEGY

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