First Trust DATAWATCH

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August CPI

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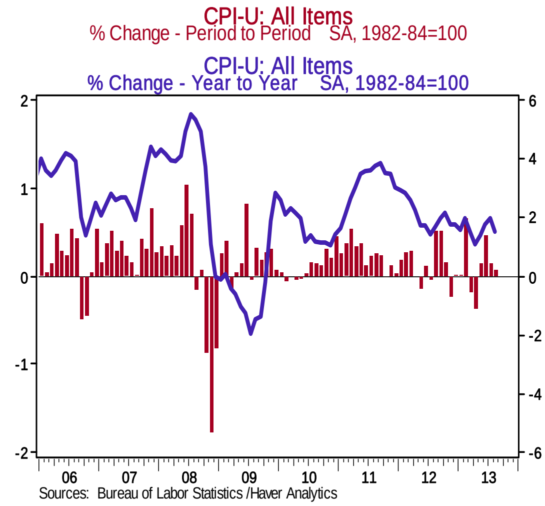
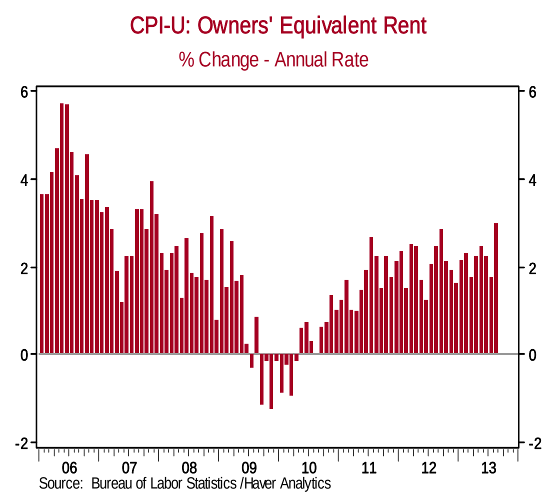
- The Consumer Price Index (CPI) increased 0.1% in August, coming in slightly below the consensus expected rise of 0.2%. The CPI is up 1.5% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was flat in August but is up 1.3% in the past year.
- The gain in the CPI in August was led by rent and medical care. Rent rose 0.3%, while medical care rose 0.6%. The "core" CPI, which excludes food and energy, was up 0.1% in August, slightly below the consensus expected rise of 0.2%. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were up 0.1% in August, and are up 0.7% in the past year. Real *weekly* earnings are up 1.0% in the past year.





Implications: With tomorrow's Fed statement in the spotlight, today's report on consumer prices provided little to move the needle. Despite little change in consumer prices in August, we expect the Fed to announce a tapering of the current round of quantitative easing. Consumer prices increased 0.1% in August, coming in slightly below the consensus expected gain of 0.2%. Compared to a year ago, overall consumer prices are up 1.5% while core prices are up 1.8%. Neither of these figures sets off alarm bells. Instead, they suggest the Federal Reserve's preferred measure of inflation, the PCE deflator (which usually runs a ¼ point below the CPI) will remain below the Fed's target of 2%. We don't expect this to last. Inflation bottomed in April when it was up only 1.1% from the prior year, and we expect it will be noticeably higher a year from now. Recent figures underscore the acceleration, with the overall CPI up at a 3% annual rate in the past three months. However, for the Fed, the key measure of inflation is its own forecast of future inflation. So, even if inflation moves higher, as long as the Fed projects the rise to be temporary it will not react to that inflation alone by raising short-term interest rates. The Fed is more focused on the labor market and, we believe, is willing to let inflation exceed its long-term target of 2% for a prolonged period of time in order to get the unemployment rate down. The best news in today's report was that "real" (inflation-adjusted) average hourly earnings rose 0.1% in August, while "real" weekly average earnings rose 0.4%. In other news this morning, the NAHB index, which measures confidence among home builders, came in at 58 in September, unchanged from August, and remains at the highest level in nearly eight years.

CPI - U *All Data Seasonally Adjusted*	Aug-13	Jul-13	Jun-13	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	0.2%	0.5%	3.0%	0.7%	1.5%
Ex Food & Energy	**0.1%**	0.2%	0.2%	1.8%	1.5%	1.8%
Ex Energy	**0.1%**	0.2%	0.2%	1.8%	1.5%	1.7%
Energy	**-0.3%**	0.2%	3.4%	14.3%	-6.5%	-0.1%
Food and Beverages	**0.1%**	0.2%	0.2%	1.9%	1.2%	1.4%
Housing	**0.1%**	0.0%	0.2%	1.2%	1.8%	2.2%
Owners Equivalent Rent	**0.3%**	0.1%	0.2%	2.4%	2.3%	2.2%
New Vehicles	**0.0%**	0.1%	0.3%	1.6%	1.5%	1.1%
Medical Care	**0.6%**	0.2%	0.4%	5.2%	2.8%	2.3%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.2%	2.1%	2.0%	2.4%
Real Average Hourly Earnings	**0.1%**	-0.1%	-0.1%	-0.4%	1.4%	0.7%

Source: U.S. Department of Labor

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