First Trust DATAWATCH

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September CPI

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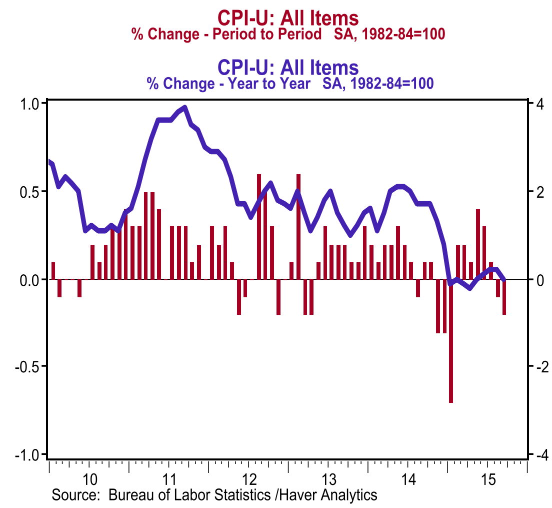
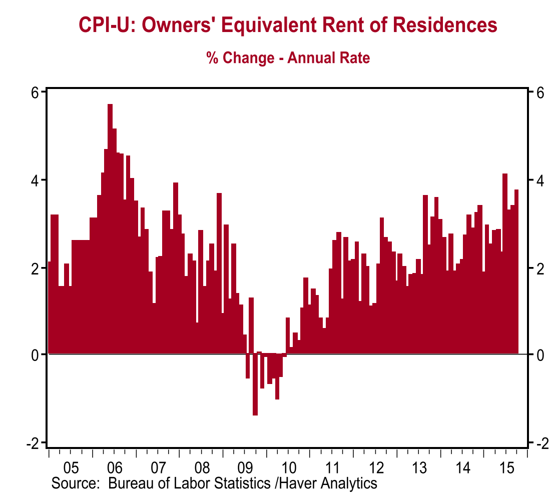
- The Consumer Price Index (CPI) declined 0.2% in September, matching consensus expectations. The CPI is unchanged from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) fell 0.3% in September, and is down 0.9% in the past year.
- Energy prices declined 4.7% in September, while food prices increased 0.4%. The "core" CPI, which excludes food and energy, increased 0.2% in September, above the consensus expected 0.1%. Core prices are up 1.9% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in September, and are up 2.2% in the past year. Real *weekly* earnings are also up 2.2% in the past year.





Implications: Consumers might not be feeling pain at the pump, but they are seeing prices rise nearly everywhere else. The consumer price index declined 0.2% in September, but the headline decline paints a distorted picture, as it was all due to energy prices, which fell 4.7% in September and are down 18.4% in the past year. Excluding energy, consumer prices rose 0.2% in September and are up 1.9% in the past year, very close to the Federal Reserve's 2% inflation target. This suggests that as soon as energy prices stop falling, overall inflation will move toward the Fed's target more quickly than most anticipate. Core consumer prices in September were led higher by housing. Owners' equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in September, is up 3.1% in the past year, up at a 3.3% annual rate in the past three months, and will be a key source of higher inflation in the year ahead. While some scaremongers warn about deflation, others stoke fears of hyperinflation. But the truth is that neither is a threat at present. What we have is low inflation that is likely to gradually work its way upward over the next few years. On the earnings front, "real" (inflation-adjusted) average hourly earnings rose 0.1% in September, and are up 2.2% in the past year. In other words, increases in consumer spending have been driven by higher earnings, not consumers loading up on debt. In other news today, initial claims for unemployment insurance fell 7,000 last week to 255,000, the 32nd consecutive week below 300,000. The 4 week moving average now stands at 265,000, the lowest reading since 1973. Continuing claims fell 50,000 to 2.16 million, the lowest in 15 years. Plugging these figures into our models suggest payroll growth is accelerating in October, growing in the 225,000 - 250,000 range. In turn, this should raise the odds the markets are placing on a rate hike by December. On the manufacturing front, the Empire State index, a measure of manufacturing sentiment in New York, came in at -11.4 in October, versus -14.7 in September. Meanwhile, the Philly Fed Index, which measures sentiment in that region, rose to -4.5 in October versus -6.0 in September. The economy is still a Plow Horse.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Sep-15	Aug-15	Jul-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**-0.2%**	-0.1%	0.1%	-0.4%	1.6%	0.0%
Ex Food & Energy	**0.2%**	0.1%	0.1%	1.7%	2.0%	1.9%
Ex Energy	**0.2%**	0.1%	0.1%	1.9%	2.0%	1.9%
Energy	**-4.7%**	-2.0%	0.1%	-23.9%	-4.1%	-18.4%
Food and Beverages	**0.4%**	0.2%	0.2%	3.0%	2.1%	1.6%
Housing	**0.3%**	0.2%	0.2%	2.6%	2.3%	2.1%
Owners Equivalent Rent	**0.3%**	0.2%	0.3%	3.3%	3.5%	3.1%
New Vehicles	**-0.1%**	0.0%	-0.2%	-1.1%	0.3%	0.5%
Medical Care	**0.2%**	0.0%	0.1%	1.4%	2.2%	2.5%
Services (Excluding Energy Services)	**0.3%**	0.1%	0.2%	2.5%	2.9%	2.7%
Real Average Hourly Earnings	**0.1%**	0.5%	0.1%	2.7%	0.4%	2.2%

Source: U.S. Department of Labor