First Trust DATAWATCH

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September CPI

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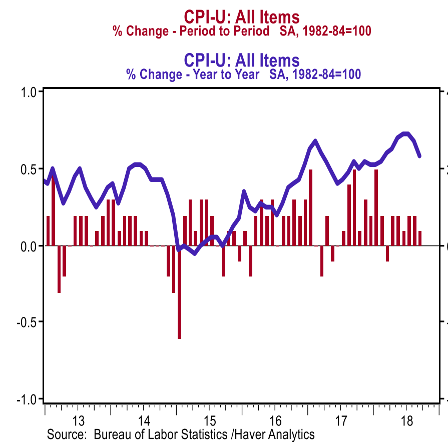
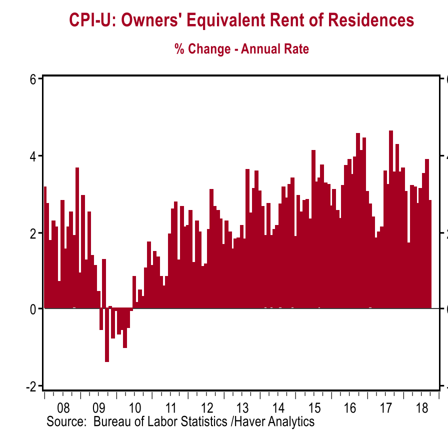
- The Consumer Price Index (CPI) rose 0.1% in September, coming in below the consensus expected increase of 0.2%. The CPI is up 2.3% from a year ago.
- Energy prices declined 0.5% in September, while food prices were unchanged. The "core" CPI, which excludes food and energy, increased 0.1% in September, below the consensus expected increase of 0.2%. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.3% in September and are up 0.5% in the past year. Real average weekly earnings are up 1.1% in the past year.





Implications: Consumer prices rose less than expected in September, but the upward trend in inflation remains intact. Consumer prices rose only 0.1% in September, compared to the 0.2% the consensus expected. But in the past eight Septembers (2010-2017), consumer prices have risen as much as expected four times, while rising less than expected four times, so September data may be influenced by some seasonal issues. In other words, investors shouldn't see tepid inflation in September as a shift in the overall upward trend. Look for a rebound in inflation reported a month from now. Even with the soft inflation reading for September, consumer prices are up 2.3% from a year ago and have exceeded the Fed's 2% inflation target for thirteen consecutive months. To put it in a longer-term perspective, consumer prices rose 2.2% for the twelve-months ending September 2017, 1.5% for the twelve-months ending September 2016, and were unchanged for the twelve-months ending September 2015. So, after running stubbornly below the Fed's inflation target for the first five years of the recovery, the question has shifted from "will the Fed wait on raising rates?" to "can the Fed wait on raising rates?" No, this isn't runaway inflation, but with the federal funds rate well below the pace of nominal GDP growth, the odds of higher inflation – paired with a tight labor market and widespread strength in economic data - should be enough to keep the Fed on track for slow-but steady hikes through at least the end of 2019 (think one more this year, and four next year). Energy prices fell in September, declining 0.5% on the back of lower prices for electricity and natural gas. That said, energy prices are still up 4.8% in the past year. Food prices, meanwhile, were unchanged in September. "Core" consumer prices – which exclude both food and energy costs – rose a modest 0.1% in September but are up 2.2% in the past year. Taking a deeper dig into today's report shows the 0.1% increase in core prices was once again led by owners' equivalent rent (the amount an owner would need to pay in order to rent their home on the open market). Meanwhile, a 3% drop in used car and truck prices – which tied the steepest decline for any month since 1969 – as well as declines in prices for hospital services and prescription drugs held down the overall increase in core prices. The best news in today's report was that real average hourly earnings rose 0.3% in September. While these wages are up just 0.5% in the past year, there is clear acceleration, with wages up 1.3% at an annual rate in the past six months, and up at a 1.9% annual rate over the past three months. And importantly, these earnings do not include irregular bonuses – like the ones paid by companies after the tax cut or to attract new hires – or the value of benefits. It's an imperfect measure (to say the least), but we still expect a visible pickup in wage pressure in the year ahead. In employment news this morning, initial jobless claims rose 7,000 last week to 214,000, while continuing claims rose 4,000 to 1.66 million. Both measures stand near multi-decade lows, reiterating the strength of both the labor market and the economy. Note that Hurricane Michael will influence claims reports for at least the next couple of weeks and may temporarily limit job gains in the October employment report, as well.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Sep-18	Aug-18	Jul-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	0.2%	0.2%	1.8%	2.0%	2.3%
Ex Food & Energy	**0.1%**	0.1%	0.2%	1.8%	1.8%	2.2%
Ex Energy	**0.1%**	0.1%	0.2%	1.7%	1.7%	2.1%
Energy	**-0.5%**	1.9%	-0.5%	3.6%	6.0%	4.8%
Food	**0.0%**	0.1%	0.1%	1.1%	1.5%	1.4%
Housing	**0.1%**	0.3%	0.2%	2.5%	2.3%	2.7%
Owners Equivalent Rent	**0.2%**	0.3%	0.3%	3.0%	3.2%	3.3%
New Vehicles	**-0.1%**	0.0%	0.3%	0.9%	0.9%	0.5%
Medical Care	**0.2%**	-0.2%	-0.2%	-1.0%	0.9%	1.7%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.3%	3.0%	2.8%	3.0%
Real Average Hourly Earnings	**0.3%**	0.1%	0.1%	1.9%	1.3%	0.5%

Source: U.S. Department of Labor