First Trust DATAWATCH

October 10, 2019 • 630.517.7756 • www.ftportfolios.com

September CPI

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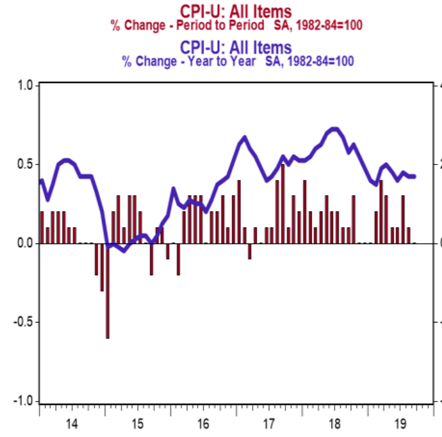
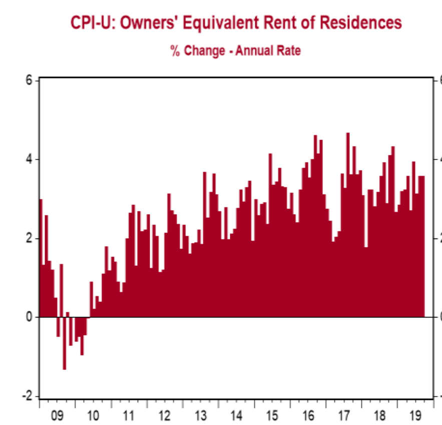
- The Consumer Price Index (CPI) was unchanged in September, coming in below the consensus rise of 0.1%. The CPI is up 1.7% from a year ago.
- Energy prices declined 1.4% in September, while food prices rose 0.1%. The "core" CPI, which excludes food and energy, increased 0.1% in September, coming in below the consensus expected gain of 0.2%. Core prices are up 2.4% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in September, but are up 1.2% in the past year. Real average weekly earnings are up 0.9% in the past year.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: Consumer prices took a breather in September following seven months of rising prices. Meanwhile "core" prices – a gauge of inflation that strips out the typically volatile food and energy components – rose 0.1%. Overall consumer prices are up 1.7% in the past year, but they have been held back by declining costs for energy. Core prices are up 2.4%, tied for the largest twelve-month increase going back to late 2008. Given the Fed's 2% inflation target, that should be a signal that everything is looking A-OK. Not too fast, not too slow, just right. While core inflation is up 2.4% in the past year, it's up at a faster 2.8% annualized rate over the past three months. The Fed needs to keep this data in mind in the months ahead as it deliberates about rate cuts. With employment data continuing to show strength, the Fed would clearly be putting their dual mandate on the back burner in an attempt to use monetary policy to "solve" issues that have developed overseas. But the Fed has shown at recent meetings that it has moved away from a "data dependent" stance, so don't expect the pickup in inflation – paired with Monday's report on producer prices which showed core prices at 2% as well - to change the Federal Reserve's plan for additional rate cuts. Looking at the details of today's report shows that rising costs for housing, medical care, and services were offset in September by declining costs for energy and new and used vehicles. The most disappointing news in today's report was that real average hourly earnings were unchanged in September, but remain up 1.2% in the past year. With the strength in the labor market, we believe earnings will trend higher in the months ahead. Healthy consumer balance sheets, a strong job market, inflation in-line with Fed targets but pushing upwards, and the continued tail winds from improved tax and regulatory policy, all reinforce our belief that the economy is on solid footing. In employment news this morning, initial jobless claims fell 10,000 last week to 210,000, while continuing claims rose 29,000 to 1.684 million. Plugging this data into our models suggests nonfarm payroll continue to grow at a healthy pace in October.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Sep-19	Aug-19	Jul-19	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	0.1%	0.3%	1.7%	1.7%	1.7%
Ex Food & Energy	**0.1%**	0.3%	0.3%	2.8%	2.5%	2.4%
Ex Energy	**0.1%**	0.2%	0.3%	2.5%	2.2%	2.3%
Energy	**-1.4%**	-1.9%	1.3%	-7.7%	-4.0%	-4.8%
Food	**0.1%**	0.0%	0.0%	0.7%	0.7%	1.8%
Housing	**0.3%**	0.1%	0.3%	2.6%	2.7%	3.0%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	3.0%	3.3%	3.4%
New Vehicles	**-0.1%**	-0.1%	-0.2%	-1.6%	-0.4%	0.1%
Medical Care	**0.2%**	0.7%	0.5%	5.8%	4.7%	3.5%
Services (Excluding Energy Services)	**0.3%**	0.3%	0.3%	3.4%	3.2%	2.9%
Real Average Hourly Earnings	**0.0%**	0.3%	0.0%	1.1%	1.1%	1.2%

Source: U.S. Department of Labor