First Trust DATAWATCH

February 13, 2019 • 630.517.7756 • www.ftportfolios.com

January CPI

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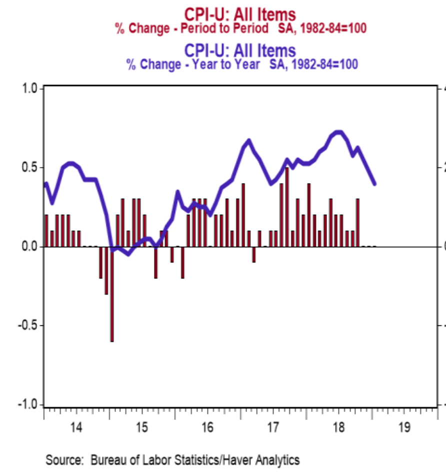
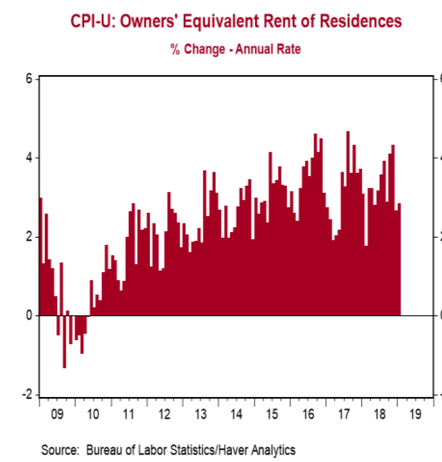
- The Consumer Price Index (CPI) was unchanged in January, coming in below the consensus expected rise of 0.1%. The CPI is up 1.6% from a year ago.
- Energy prices declined 3.1% in January, while food rose 0.2%. The "core" CPI, which excludes food and energy, increased 0.2% in January, matching consensus expectations. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.2% in January and are up 1.7% in the past year. Real average weekly earnings are up 1.9% in the past year.





Implications: Consumer prices were unchanged for a third consecutive month in January, though the headline number masks the real story. Recent months have been a textbook example of how volatility distorts readings. Energy prices fell 2.8% in November, 2.6% in December, and 3.1% in January. But while the consumer price index showed no change in overall price inflation over that period, "core" inflation (which excludes the typically volatile food and energy categories) rose a steady 0.2% in all three months. Over the past three months, overall inflation has declined 0.2% annualized, while "core" prices are up at a 2.6% annual rate. In other words, the Fed (which understands the short-term volatility coming from the energy sectors) continues to see ample data to support a path of continued rate hikes if – and this is important – we see longer term interest rates begin to rise. The Fed does not want to force a yield curve inversion, but we believe continued solid economic growth and further resolution of trade tensions will bring confidence back to the markets and a return to a more "risk on" environment will put upward pressure on interest rates. As we stated in our annual forecasts release, we expect the 10-year Treasury to end the year at 3.4%, giving the Fed room for two, maybe three hikes in 2019. Looking at the details of the January report shows housing and medical care led the rise in "core" prices, both up 0.2%. Arguably the best news in today's report was that real average hourly earnings rose 0.2% in January and are accelerating. These real wages are up 1.7% in the past year, up 2.4% at an annual rate over the past six months, and up 3.4% at an annual rate in the past three-months. Remember, "real" wage growth represents increases in earnings above the pace of inflation, so these are direct gains to consumer purchasing power. And 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. Strong employment growth, healthy corporate earnings, and the continued pickup in new orders suggest that this trend will continue through 2019. So ignore the CPI headline and any pouting pundits that try to spin today's report as a sign of weakness. That's just sloppy reporting and a lack of understanding. The data show pretty much exactly what you would expect from an economy growing at a healthy pace.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jan-19	Dec-18	Nov-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	0.0%	0.0%	-0.2%	0.9%	1.6%
Ex Food & Energy	**0.2%**	0.2%	0.2%	2.6%	2.2%	2.2%
Ex Energy	**0.2%**	0.2%	0.2%	2.7%	2.1%	2.1%
Energy	**-3.1%**	-2.6%	-2.8%	-29.4%	-13.4%	-4.8%
Food	**0.2%**	0.3%	0.2%	3.1%	1.7%	1.6%
Housing	**0.2%**	0.3%	0.3%	3.3%	3.0%	2.9%
Owners Equivalent Rent	**0.3%**	0.2%	0.3%	3.2%	3.1%	3.2%
New Vehicles	**0.2%**	0.0%	0.0%	1.0%	0.2%	0.0%
Medical Care	**0.2%**	0.3%	0.4%	3.4%	2.1%	1.9%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.2%	2.7%	2.6%	2.8%
Real Average Hourly Earnings	**0.2%**	0.4%	0.3%	3.4%	2.4%	1.7%

Source: U.S. Department of Labor