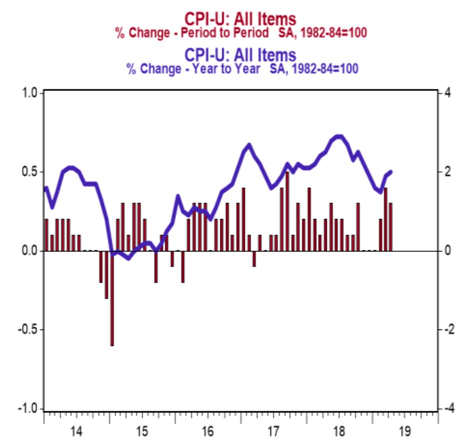
First Trust DATAWATCH

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

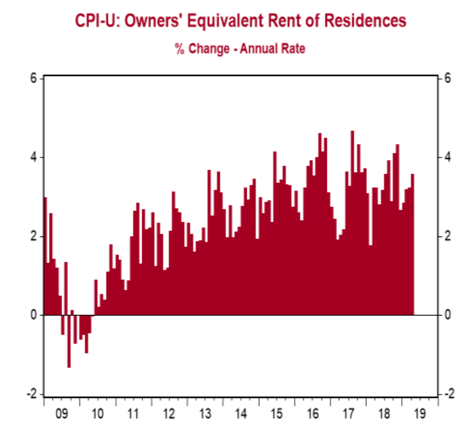
April CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Consumer Price Index (CPI) rose 0.3% in April, coming in below the consensus expected rise of 0.4%. The CPI is up 2.0% from a year ago.
- Energy prices rose 2.9% in April, while food prices declined 0.1%. The "core" CPI, which excludes food and energy, increased 0.1% in April, coming in below the consensus expected rise of 0.2%. Core prices are up 2.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in April, 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: We wouldn't fault investors for thinking that inflation has been little more than an energy story of late, as gas prices in particular seems to grab the headlines when the CPI reports come out. But a look at the details shows inflation is broad-based. Strip out food (down 0.1% in April) and energy (which rose 2.9%), and "core" prices rose 0.1% in April. More important is that these core prices are up 2.1% in the past year, faster than the 2.0% prices have risen when you include food and energy. In other words, no matter how you cut it, inflation is broadly in-line with Fed targets, and shows no signs of the economic paralysis that bond markets are pricing in. Housing and medical care costs – both up 0.3% in April - continue to be the primary drivers pushing "core" prices higher, more than offsetting a 1.3% decline in prices for used cars and trucks. We believe these data, as well as continued strength in employment and the Q1 GDP data, support the case for higher rates, but don't expect much of a change from the Fed when they release updated forecasts – the "dot plots" – at their June meeting. Their last set of projections released back in March showed eleven FOMC members expected rates to remain unchanged through year end, while six expected one or more hikes and not a single member forecast a cut. That stands in sharp contrast to the markets, which are pricing in a 62.5% chance of at least one rate cut this year, and zero chance of a hike. That's nuts. The fundamentals support higher rates, and the only factor currently restraining the Fed from raising rates is the low level of the yield on the 10-year Treasury Note, which simply isn't reflecting the underlying strength of the economy. As the year progresses and worst-case scenarios aren't realized, possibly catalyzed by resolution of trade tensions, we expect a return of confidence to the financial markets and a shift back towards a more "risk on" environment, putting upward pressure on interest rates. The worst news in today's report was that real average hourly earnings fell 0.1% in April following a 0.3% decline in March. However, they remain up 1.2% in the past year and, with the strength in the labor market noted above, we believe that the trend higher will return in the months ahead. Add in the 1.6% increase in hours worked over the past year, and employees are continuing to see more cash in their pockets. And remember, 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. Healthy consumers balance sheets, continued strong employment growth, inflation in-line with Fed targets, and GDP growth that came in well above the dismal forecasts some pundits were promoting earlier this year, all reinforce our belief that the economy is on very solid ground, and the Fed will keep their eyes on the big picture.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	**Apr-19**	**Mar-19**	**Feb-19**	**3-mo % Ch. annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Consumer Price Index	**0.3%**	0.4%	0.2%	3.7%	1.7%	2.0%
Ex Food & Energy	**0.1%**	0.1%	0.1%	1.6%	2.1%	2.1%
Ex Energy	**0.1%**	0.2%	0.2%	1.7%	2.2%	2.0%
Energy	**2.9%**	3.5%	0.4%	31.0%	-3.8%	1.7%
Food	**-0.1%**	0.3%	0.4%	2.3%	2.7%	1.8%
Housing	**0.3%**	0.3%	0.2%	3.4%	3.3%	2.9%
Owners Equivalent Rent	**0.3%**	0.3%	0.3%	4.0%	3.6%	3.4%
New Vehicles	**0.1%**	0.4%	-0.2%	1.2%	1.1%	1.2%
Medical Care	**0.3%**	0.3%	-0.2%	1.7%	2.6%	1.9%
Services (Excluding Energy Services)	**0.3%**	0.3%	0.2%	3.0%	2.9%	2.8%
Real Average Hourly Earnings	**-0.1%**	-0.3%	0.2%	-0.7%	1.3%	1.2%

Source: U.S. Department of Labor