First Trust DATAWATCH

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August CPI

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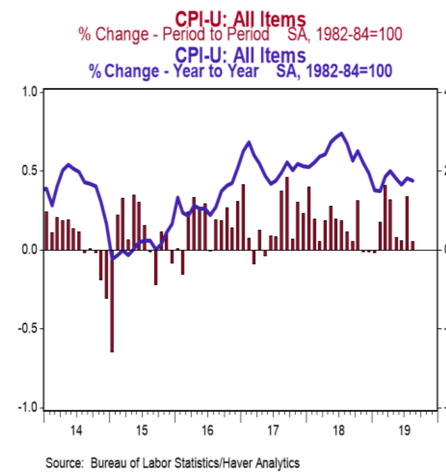
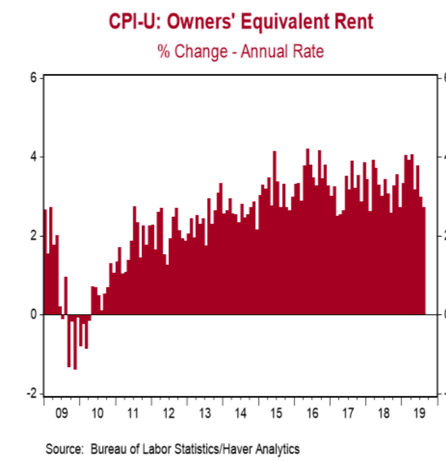
- The Consumer Price Index (CPI) rose 0.1% in August, matching consensus expectations. The CPI is up 1.7% from a year ago.
- Energy prices declined 1.9% in August, while food prices were unchanged. The "core" CPI, which excludes food and energy, increased 0.3% in August, coming in above the consensus 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 – rose 0.4% in August and are up 1.5% in the past year. Real average weekly earnings are up 1.2% in the past year.





Implications: Tell us again why the Fed should be cutting rates, because the data suggest otherwise. Consumer prices rose 0.1% in August while "core" prices – a gauge of inflation that strips out the typically volatile food and energy components – rose 0.3%. 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. But the Fed showed at its last meeting that it has moved away from a "data dependent" stance, so don't expect the pickup in inflation – paired with yesterday's report on producer prices which showed core prices above 2% as well - to change the Federal Reserve's plan for additional rate cuts. A look at the details of today's report should, at the least, make things interesting when the Fed releases its survey of economic projections (the "dot plots") at next week's meeting. While core inflation is up 2.4% in the past year, it's up at a faster 3.4% annualized rate over the past three months, the largest three-month gain since 2006. The Fed needs to keep this 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. It would be better served realizing that the woes in Europe, Japan, and China are issues with fiscal and regulatory policy, things monetary policy can't fix. Housing, medical care, and services led the index higher in August, but prices rose virtually across the board. We believe these data, as well as strength in trend inflation (which is far more important than single-month readings) don't support the case for rate cuts. Possibly the best news in today's report was that real average hourly earnings rose 0.4% in August (tied for the largest monthly increase in nearly four years) and are up 1.5% in the past year. With the strength in the labor market noted above, we believe the trend will continue to move 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 15,000 last week to 204,000, and continuing claims declined 4,000 to 1.670 million. Plugging this data into our models suggests nonfarm payroll continue to grow at a healthy pace in September.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	**Aug-19**	**Jul-19**	**Jun-19**	**3-mo % Ch. annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Consumer Price Index	**0.1%**	0.3%	0.1%	1.8%	2.5%	1.7%
Ex Food & Energy	**0.3%**	0.3%	0.3%	3.4%	2.5%	2.4%
Ex Energy	**0.2%**	0.3%	0.3%	3.0%	2.3%	2.3%
Energy	**-1.9%**	1.3%	-2.3%	-11.2%	5.6%	-4.4%
Food	**0.0%**	0.0%	0.0%	0.3%	1.0%	1.7%
Housing	**0.1%**	0.3%	0.3%	2.5%	2.7%	2.8%
Owners Equivalent Rent	**0.2%**	0.2%	0.3%	3.2%	3.4%	3.4%
New Vehicles	**-0.1%**	-0.2%	0.1%	-0.9%	0.8%	0.2%
Medical Care	**0.7%**	0.5%	0.3%	6.2%	5.0%	3.5%
Services (Excluding Energy Services)	**0.3%**	0.3%	0.3%	3.4%	3.2%	2.9%
Real Average Hourly Earnings	**0.4%**	0.0%	0.3%	2.6%	0.7%	1.5%

Source: U.S. Department of Labor