First Trust DATAWATCH

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August CPI

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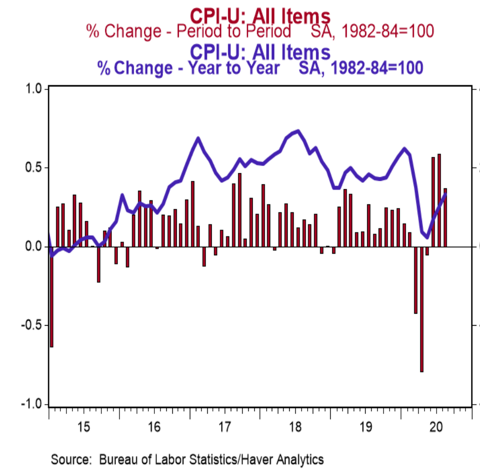
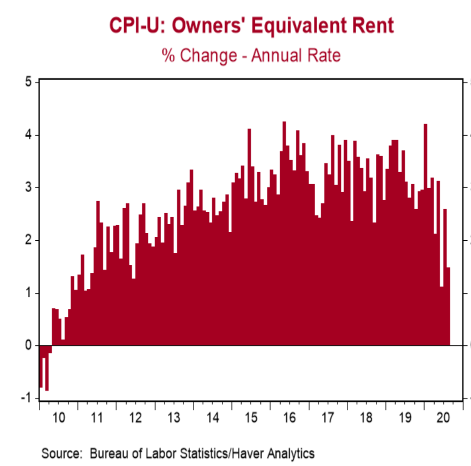
- The Consumer Price Index (CPI) rose 0.4% in August, coming in above the consensus expected 0.3%. The CPI is up 1.3% from a year ago.
- Energy prices rose 0.9% in August, while food prices increased 0.1%. The "core" CPI, which excludes food and energy, rose 0.4% in August, versus a consensus expected 0.2%. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in July but are up 3.3% in the past year. Real average weekly earnings are up 3.9% in the past year.





Implications: Mirroring yesterday's report on producer prices, consumer prices posted an above-consensus rise in August, up 0.4% following two consecutive months of 0.6% increases. Over the past three months, consumer prices are up at a 6.3% annualized rate, the fastest three-month pace of inflation since 2008. The typically volatile food and energy categories both rose in August. Energy prices rose 0.9%, due to a 2.0% increase in the price of gasoline, which more than offset declining costs for electricity and natural gas. The 0.1% increase in food prices was driven by the food away from home category, which rose 0.3%, as Americans continue to shift away from grocery stores for their meals. Strip out the impacts from the food and energy sectors, and "core" prices also increased 0.4% in August, matching the second largest increase for core prices (behind July's 0.6% increase) since 1992! One of the biggest drivers of "core" prices in August was used cars and trucks, where prices rose 5.4%, as dealers had lower inventory levels due to fewer trade-ins during the pandemic while they also experienced a surge in buyer demand. Some other contributors in July were apparel (0.6%), air fare (1.2%), and motor vehicle insurance (0.5%). Amazingly, consumer prices never fell on a year-over-year basis during the short but sharp coronavirus recession, bottoming out in May at 0.1%, and rebounding since then to 1.3% in August (+1.7% for core prices). We expect inflation will continue to rise in the months ahead toward the 2% - 3% annual pace of inflation that was in effect before the Coronavirus wreaked havoc on global economies. However, underlying fundamentals point to a higher risk of rising inflation than after the 2008 recession. The Coronavirus pandemic is the first recession on record where personal income has actually risen, due to government stimulus checks and boosted unemployment insurance payments that replaced greater than 100% of wages for many workers. Meanwhile, measures like industrial production and the unemployment rate demonstrate that the actual production of goods and services remains depressed relative to pre-pandemic levels. That mismatch between supply and demand will eventually mean too many dollars chasing too few goods, especially if further stimulus measures continue to lean on the same policies. That said, it's clear that the economic recovery has begun, the worst economic quarter in the post-World War II era is behind us, and the question now shifts to how quickly we recover.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Aug-20	Jul-20	Jun-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.4%**	0.6%	0.6%	6.3%	0.5%	1.3%
Ex Food & Energy	**0.4%**	0.6%	0.2%	5.1%	1.3%	1.7%
Ex Energy	**0.3%**	0.5%	0.3%	4.5%	1.9%	2.1%
Energy	**0.9%**	2.5%	5.1%	39.9%	-18.3%	-9.0%
Food	**0.1%**	-0.4%	0.6%	1.1%	5.8%	4.1%
Housing	**0.2%**	0.3%	0.2%	2.5%	1.5%	2.1%
Owners Equivalent Rent	**0.1%**	0.2%	0.1%	1.7%	2.3%	2.7%
New Vehicles	**0.0%**	0.8%	0.0%	3.5%	1.4%	0.7%
Medical Care	**0.1%**	0.4%	0.4%	3.7%	4.5%	4.5%
Services (Excluding Energy Services)	**0.2%**	0.6%	0.3%	4.0%	1.2%	2.2%
Real Average Hourly Earnings	**0.0%**	-0.4%	-1.8%	-8.7%	6.3%	3.3%

Source: U.S. Department of Labor

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.