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June 10, 2021 • 630.517.7756 • www.ftportfolios.com

May CPI

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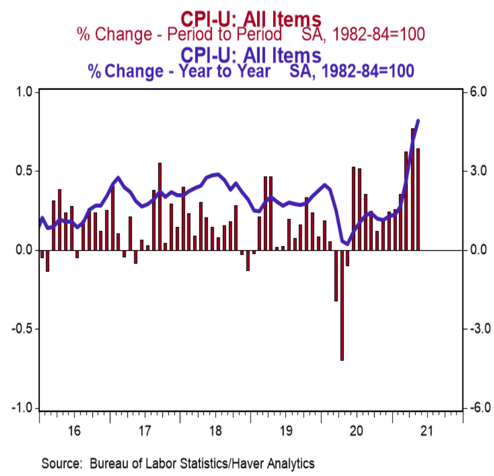
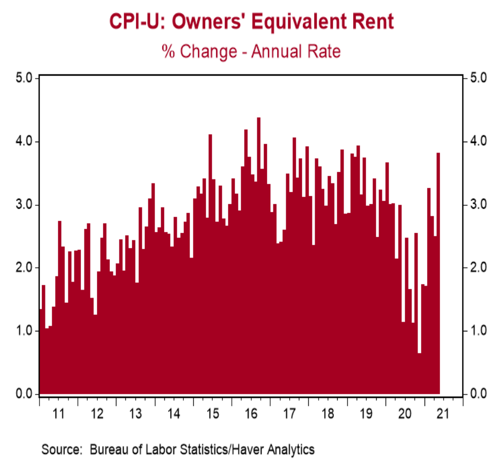
- The Consumer Price Index (CPI) increased 0.6% in May, above the consensus expected +0.5%. The CPI is up 5.0% from a year ago.
- Food prices increased 0.4% in May, while energy prices were unchanged. The "core" CPI, which excludes food and energy, rose 0.7% in May, coming in above the consensus expected +0.5%. Core prices are up 3.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.2% in May, and are down 2.8% in the past year. Real average weekly earnings are down 2.2% in the past year.





Implications: Consumer prices continued a rapid ascent in May, rising 0.6% for the month and pushing the 12-month increase for the CPI to 5.0%. The May rise of 0.6% comes after increases of 0.8% in April and 0.6% in March, bringing the three-month change to an 8.4% annual rate, the fastest increase for any three months in more than a decade. Usually, when we get a sudden sharp spike in inflation, it's because of energy prices, but not this time. Energy prices were flat in May, while food prices, also sometimes a source of volatility, rose 0.4%, a smaller gain than overall consumer prices. Instead, it was "core" prices, which exclude food and energy, that led overall consumer prices higher in May. Core prices rose 0.7%, the second largest monthly increase since 1982, behind only last month's increase of 0.9%. The index for used cars and trucks continued to drive core prices higher in May, rising 7.3% after a 10.0% increase in April. Housing rental costs were another main contributor, despite still being artificially subdued by the moratorium on evictions. The index for shelter rose 0.3% in May after increases of 0.4% and 0.3% in April and March, respectively, bringing the three-month change to a 4.1% annual rate. Compared to a year ago, overall consumer prices are up 5.0% while core prices are up 3.8%. Of course the Federal Reserve is going to claim these increases are "transitory," which is its way of saying there is no need to change monetary policy. Some analysts will say there is no need to worry, that recent inflation is just a bounce back from lower prices during the COVID shutdown disaster. But consumer prices are up 3.0% annualized versus February 2020, which was pre-COVID. Core prices are up 2.6% annualized during the same timeframe. In other words, this is not just a bounce back from temporary COVID deflation. The M2 measure of the money supply is up 30% from February 2020, the federal government has ramped up "stimulus" efforts, and employers need to lift wages to compete with abnormally high unemployment benefits. Math wins, and today the math says inflation above the Fed's 2% target is likely to be with us for some time. In employment news this morning, initial jobless claims fell 9,000 last week to 376,000. Meanwhile continuing claims declined by 258,000 to 3.499 million. Twenty-five states have announced they are discontinuing expanded federal unemployment benefits that have been a headwind to hiring across the U.S. The first four states, Iowa, Missouri, Mississippi, and Alaska are set to expire this Saturday. We anticipate a robust pace of employment growth as we move deeper into 2021.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	May-21	Apr-21	Mar-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.6%**	0.8%	0.6%	8.4%	5.9%	5.0%
Ex Food & Energy	**0.7%**	0.9%	0.3%	8.3%	4.4%	3.8%
Ex Energy	**0.7%**	0.8%	0.3%	7.6%	4.2%	3.5%
Energy	**0.0%**	-0.1%	5.0%	21.0%	33.7%	28.5%
Food	**0.4%**	0.4%	0.1%	3.8%	3.1%	2.2%
Housing	**0.4%**	0.5%	0.3%	5.3%	3.5%	2.9%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	3.0%	2.6%	2.1%
New Vehicles	**1.6%**	0.5%	0.0%	8.6%	3.9%	3.3%
Medical Care	**-0.1%**	0.1%	0.1%	0.5%	1.2%	0.9%
Services (Excluding Energy Services)	**0.4%**	0.5%	0.4%	5.4%	3.3%	2.9%
Real Average Hourly Earnings	**-0.2%**	-0.1%	-0.7%	-3.8%	-1.1%	-2.8%

Source: U.S. Department of Labor