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October 14, 2021 • 630.517.7756 • www.ftportfolios.com

# August CPI

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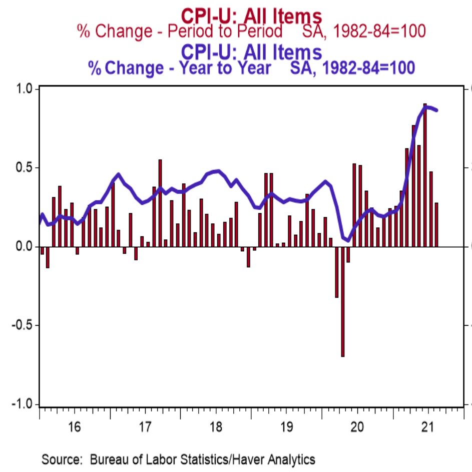
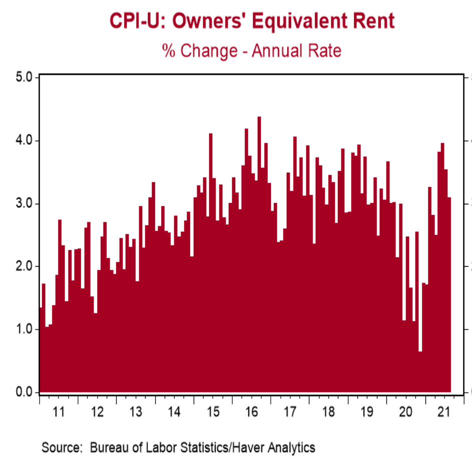
- The Consumer Price Index (CPI) increased 0.3% in August, slightly below the consensus expected +0.4%. The CPI is up 5.3% from a year ago.
- Energy prices increased 2.0% in August, while food prices increased 0.4%. The "core" CPI, which excludes food and energy, rose 0.1% in August, below the consensus expected +0.3%. Core prices are up 4.0% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – increased 0.4% in August but are down 0.9% in the past year. Real average weekly earnings are down 0.9% in the past year.




**Implications:** Consumer prices continued to increase in August but at the slowest pace since January, climbing 0.3% for the month. However, even with that slower increase, consumer prices are up 5.3% versus a year ago, well above the Federal Reserve's 2.0% long-term target. Although some analysts may think the August data is a "win" for the "transitory" camp, overall consumer prices were still up at a 3.3% annual rate in August, which is also well above the Fed's inflation target. Energy led the overall 0.3% price gain, rising 2.0% for the month, with food prices rising 0.4%. "Core" prices, which exclude food and energy, rose 0.1% in August. These prices were held down by an unusually wide array of price declines, including airfares (-9.1%), used cars and trucks (-1.5%), motor vehicle insurance (-2.8%), and hotels/motels (-3.3%). Combined, those four factors reduced both the headline gain in the CPI as well as core CPI growth by 0.2 percentage points. Yes, used car and truck prices may continue to decline in the months ahead after a large run-up in the past year, but airfares, and motor vehicle insurance remain below the pre-COVID trend. In the months ahead, we anticipate a faster pace of core inflation. Housing rents (both from actual tenants as well as the imputed rent of owner-occupants) make up almost 40% of the core CPI, have been accelerating lately, and should accelerate more due to the end of the national moratorium on tenant evictions. Moreover, with the national Case-Shiller home price index up 18.6% in the last year, some would-be homeowners may shift toward renting, putting further upward pressure on rents. Notably, new vehicle prices rose 1.2% in August and are up 7.6% versus a year ago, the largest increase since 1980 and a result of a continued shortage in semi-conductor chips. The hope that supply chain issues would fade after a few months has proven wrong, as recent delta-driven shutdowns in Asian country factories and ports have only made matters worse. And although used car and trucks prices declined in August, the twelve-month increase for that category remains an extremely elevated 31.9%. One way to assess the underlying trend is to measure price gains since February 2020, the last month pre-COVID, which would naturally include the price declines early-on in the shutdowns. Since then, consumer prices are up at a 3.6% annual rate while core prices are up 3.1% annualized. As the massive increase in the M2 measure of the money supply continues to gain traction, we think the ranks of those claiming the recent burst in inflation is transitory will dwindle. The Federal Reserve and many others assume inflation will be close to 2.0% next year. They are in for a rude awakening.

| CPI - U<br>*All Data Seasonally Adjusted Except for Yr to Yr* | Aug-21 | Jul-21 | Jun-21 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| ***Consumer Price Index*** | **0.3%** | 0.5% | 0.9% | 6.8% | 7.6% | 5.3% |
| ***Ex Food & Energy*** | **0.1%** | 0.3% | 0.9% | 5.4% | 6.8% | 4.0% |
| ***Ex Energy*** | **0.1%** | 0.4% | 0.9% | 5.7% | 6.6% | 4.0% |
| ***Energy*** | **2.0%** | 1.6% | 1.5% | 22.3% | 21.6% | 25.0% |
| ***Food*** | **0.4%** | 0.7% | 0.8% | 7.8% | 5.8% | 3.7% |
| ***Housing*** | **0.4%** | 0.4% | 0.4% | 4.8% | 5.1% | 3.5% |
| ***Owners Equivalent Rent*** | **0.3%** | 0.3% | 0.3% | 3.5% | 3.3% | 2.5% |
| ***New Vehicles*** | **1.2%** | 1.7% | 2.0% | 21.5% | 14.9% | 7.6% |
| ***Medical Care*** | **0.2%** | 0.3% | -0.1% | 1.6% | 1.1% | 0.4% |
| ***Services (Excluding Energy Services)*** | **0.0%** | 0.3% | 0.4% | 2.9% | 4.1% | 2.7% |
| ***Real Average Hourly Earnings*** | **0.4%** | -0.1% | -0.5% | -1.1% | -2.4% | -0.9% |

*Source: U.S. Department of Labor*