First Trust DATAWATCH

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July CPI

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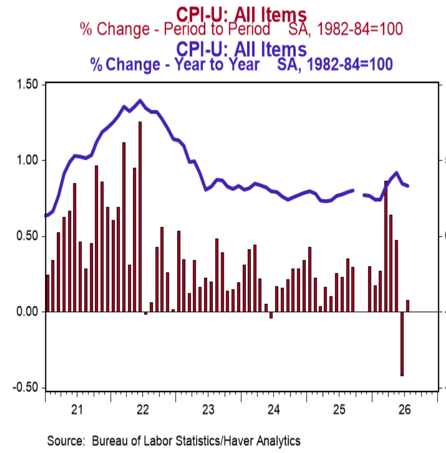
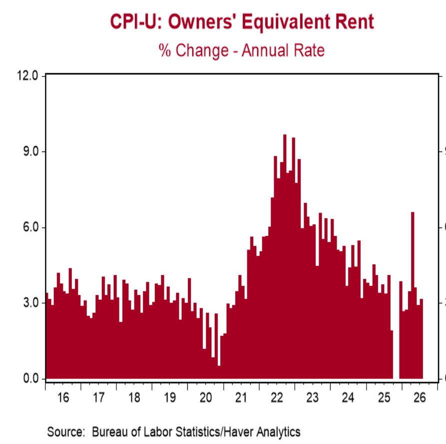
- The Consumer Price Index (CPI) rose 0.1% in July, matching consensus expectations. The CPI is up 3.4% from a year ago.
- Energy prices declined 1.5% in July, while food prices rose 0.1%. The "core" CPI, which excludes food and energy, rose 0.2% in July, also matching consensus expectations. Core prices are up 2.5% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in July and are down 0.2% in the past year. Real average weekly earnings are up 0.1% in the past year.





Implications: Today's CPI report makes it less likely the Fed hikes short-term rates at the September meeting. Consumer prices matched expectations by rising 0.1% in July following a 0.4% decline in June. Energy prices continued to move lower, falling 1.5% for the month, although they remain 14.7% higher versus a year ago. "Core" CPI, which excludes food and energy, rose 0.2% in July, also matching consensus expectations. Housing rents (both those for actual tenants and the imputed rental value of owner-occupied homes) have been the primary contributor to core inflation over the last few years and were so again in July, rising 0.3%. That was partially offset by declines across categories such as hotels (-3.3%), financial services (-1.3%), prescription drugs (-0.8%), and motor vehicle insurance (-0.3%). Meanwhile, "Supercore" prices – a subset measure created by the Federal Reserve that excludes food, energy, other goods, and housing rents – rose 0.2% in July. Categories adding to the rise include airline fares (+2.2%), education and communication services (+0.5%), and medical care (+0.6%). As an aside – airline fares are up 25.5% in the past year. Wow. While overall consumer prices are up 3.4% over the past year compared with 2.7% for the twelve months ending July 2025, much of that acceleration reflects the spike in energy prices following the Iran War. By contrast, core prices have increased 2.5% in the past year, down from a 3.1% gain in the twelve months ending July 2025. Still, inflation remains above the Fed's 2.0% target no matter how you cut it. The worst news in today's report was that wages lost ground in the battle against inflation, as "real," inflation-adjusted hourly earnings declined 0.1%, continuing a trend that has left them down 0.2% over the past year. While this report should ease some pressure on the Federal Reserve to raise interest rates, the ceasefire between the U.S. and Iran remains fragile, meaning inflation could be volatile in the near term. We, however, will be focused on the M2 measure of the money supply, which is the most reliable tool for forecasting sustained inflation and suggests that once the Iran War is resolved, inflation may drop faster than most investors expect.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jul-26	Jun-26	May-26	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	-0.4%	0.5%	0.5%	3.8%	3.4%
Ex Food & Energy	**0.2%**	0.0%	0.2%	1.6%	2.4%	2.5%
Ex Energy	**0.2%**	0.0%	0.2%	1.7%	2.5%	2.6%
Energy	**-1.5%**	-5.7%	3.9%	-13.3%	24.9%	14.7%
Food	**0.1%**	0.2%	0.2%	1.8%	2.7%	3.0%
Housing	**0.1%**	0.0%	0.2%	1.8%	3.5%	3.3%
Owners Equivalent Rent	**0.3%**	0.2%	0.3%	3.2%	3.7%	3.2%
New Vehicles	**0.1%**	0.0%	-0.3%	-0.8%	-0.4%	0.5%
Medical Care	**0.4%**	-0.1%	0.3%	2.2%	1.6%	1.7%
Services (Excluding Energy Services)	**0.2%**	0.0%	0.3%	2.2%	3.1%	3.0%
Real Average Hourly Earnings	**-0.1%**	0.7%	-0.2%	1.8%	-1.4%	-0.2%

Source: Bureau of Labor Statistics