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September 16, 2015 • 630.517.7756 • www.ftportfolios.com

August CPI

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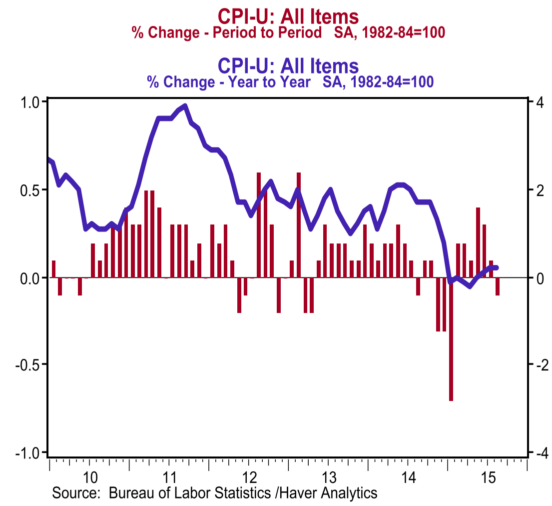
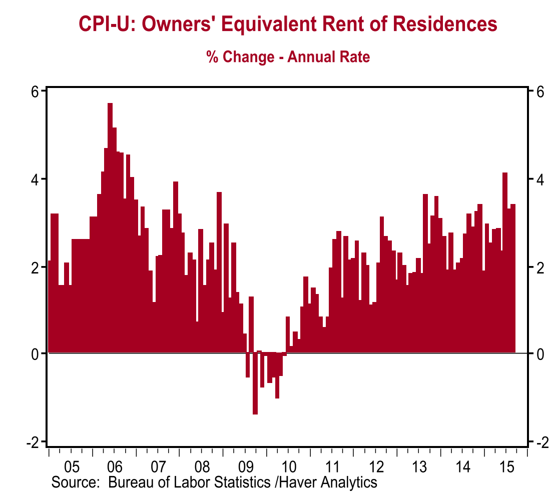
- The Consumer Price Index (CPI) declined 0.1% in August, matching consensus expectations. The CPI is up 0.2% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) fell 0.2% in August, and is down 0.6% in the past year.
- Energy prices declined 2.0% in August, while food prices increased 0.2%. The "core" CPI, which excludes food and energy, increased 0.1% in August, matching consensus expectations. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.5% in August, and are up 2.0% in the past year. Real *weekly* earnings are up 2.3% in the past year.





Implications: The final inflation report heading into today's Fed meeting went off with a wimper, not a bang. Headline prices declined 0.1%, but all of the decline (and then some) was due to energy prices, which declined 2% in August and are down 15.0% in the past year. Excluding energy, consumer prices rose 0.1% in August and are up 1.8% in the past year. And while overall inflation is up a mere 0.2% in the past year, prices have risen 2.3% at an annual rate over the past six months. Core prices, which remove the volatile food and energy components, continue to hover around 2% inflation from a year ago, very close to the Fed's inflation target. So regardless of the outcome of tomorrow's decision, inflation should eventually put pressure on the Fed to raise rates faster than the market expects. Core consumer prices in August were led higher by housing. Owners' equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in August, is up 3% in the past year, up at a 3.5% annual rate in the past three months, and will be a key source of higher inflation in the year ahead. While some scaremongers warn about deflation, others stoke fears of hyperinflation. But the truth is that neither is a threat at present. What we have is low inflation that is likely to gradually work it's way upward over the next few years. On the earnings front, "real" (inflation-adjusted) average hourly earnings rose 0.5% in August, and are up a modest 2.0% in the past year. In other words, increases in consumer spending have been driven by higher earnings, not consumers loading up on debt. Taken as a whole, recent trends in both consumer and producer prices, paired with solid employment growth and a 5.1% unemployment rate, suggest the Fed has solid grounds to announce the start to rate hikes in tomorrow's statement.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Aug-15	Jul-15	Jun-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**-0.1%**	0.1%	0.3%	1.5%	2.3%	0.2%
Ex Food & Energy	**0.1%**	0.1%	0.2%	1.6%	2.0%	1.8%
Ex Energy	**0.1%**	0.1%	0.2%	1.7%	1.9%	1.8%
Energy	**-2.0%**	0.1%	1.7%	-1.0%	8.0%	-15.0%
Food and Beverages	**0.2%**	0.2%	0.3%	2.6%	1.0%	1.5%
Housing	**0.2%**	0.2%	0.2%	2.5%	1.9%	2.0%
Owners Equivalent Rent	**0.2%**	0.3%	0.4%	3.5%	3.4%	3.0%
New Vehicles	**0.0%**	-0.2%	0.1%	-0.4%	0.8%	0.6%
Medical Care	**0.0%**	0.1%	-0.2%	0.0%	2.5%	2.5%
Services (Excluding Energy Services)	**0.1%**	0.2%	0.3%	2.5%	2.8%	2.6%
Real Average Hourly Earnings	**0.5%**	0.1%	-0.4%	0.8%	0.2%	2.0%

Source: U.S. Department of Labor