First Trust DATAWATCH

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June CPI

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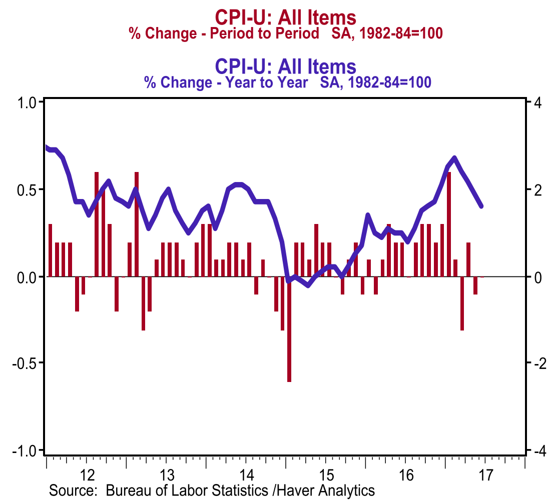
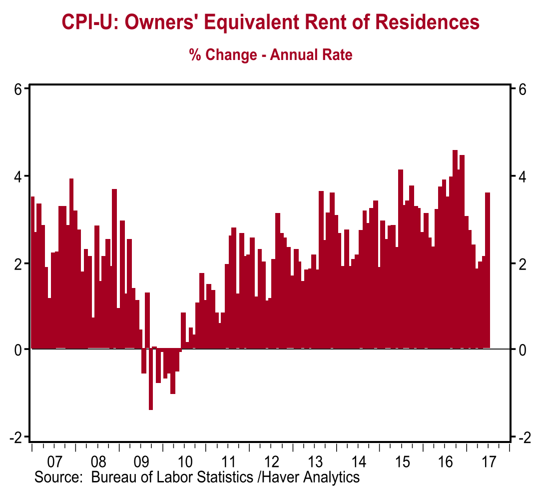
- The Consumer Price Index (CPI) was unchanged in June, coming in below the consensus expected increase of 0.1%. The CPI is up 1.6% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) declined 0.1% in June but is up 1.2% in the past year.
- Energy prices fell 1.6% in June, while food prices were unchanged. The "core" CPI, which excludes food and energy, increased 0.1% in June, slightly below the consensus expected rise of 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 – rose 0.2% in June and are up 0.8% in the past year. Real average weekly earnings are up 1.1% in the past year.





Implications: Consumer prices were unchanged in June and have been tame over recent months, but cries that a lull in inflation should give the Fed pause are overblown. Consumer prices are up 1.6% in the past year, compared to a 1.0% increase in the twelve months ending June 2016 and a 0.1% increase for the period ending June 2015. In other words, inflation is still in a rising trend. Energy prices fell 1.6% in June, while food prices were flat. Strip out the typically volatile food and energy components, and "core" CPI rose 0.1% in June and is up 1.7% in the past year. Medical care and rent costs led "core" prices higher in June, rising 0.4% and 0.3% respectively, more than offsetting declining prices for autos. We expect rents to accelerate in the year ahead as supply constraints get tighter in the housing market. Meanwhile, energy prices should stop falling and rebound a bit. Combined, these forces should push the CPI back above 2% around the end of the year. The best news in today's report is that real average hourly earnings rose 0.2% in June. These earnings are up 0.8% over the past year, up at a 1.3% annual rate over the past six months, and a 1.9% annual rate over the past three. This acceleration signals that a loose monetary policy has led to a tighter labor market. Because the Fed believes in the Phillips Curve, the trend of accelerating price and wage gains should have Fed officials focusing more on the potential for inflation to rise faster than desired as the jobless rate continues to fall below their long-term target. That's why we expect the Fed to stick to their plan of starting to unwind the balance sheet while also raising rates one more time in 2017.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jun-17	May-17	Apr-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	-0.1%	0.2%	0.1%	0.8%	1.6%
Ex Food & Energy	**0.1%**	0.1%	0.1%	1.0%	1.3%	1.7%
Ex Energy	**0.1%**	0.1%	0.1%	1.0%	1.4%	1.6%
Energy	**-1.6%**	-2.7%	1.1%	-12.0%	-6.8%	2.3%
Food	**0.0%**	0.2%	0.2%	1.2%	2.1%	0.9%
Housing	**0.1%**	0.2%	0.3%	2.7%	2.6%	3.0%
Owners Equivalent Rent	**0.3%**	0.2%	0.2%	2.9%	2.8%	3.2%
New Vehicles	**-0.3%**	-0.2%	-0.2%	-2.6%	-0.6%	0.0%
Medical Care	**0.4%**	0.0%	-0.2%	0.8%	1.3%	2.7%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.1%	2.0%	2.0%	2.5%
Real Average Hourly Earnings	**0.2%**	0.3%	0.0%	1.9%	1.3%	0.8%

Source: U.S. Department of Labor

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