First Trust DATAWATCH

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June CPI

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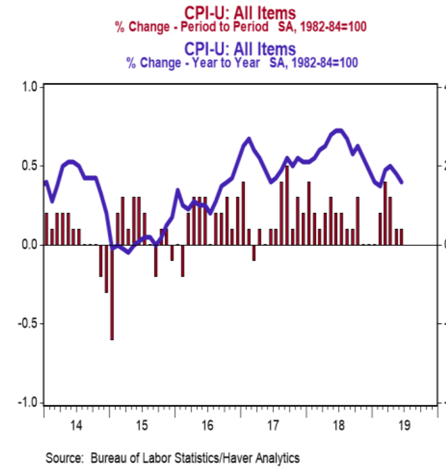
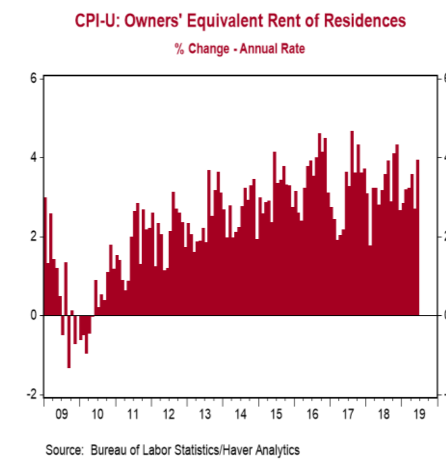
- The Consumer Price Index (CPI) rose 0.1% in June, coming above the consensus expectation of no change. The CPI is up 1.6% from a year ago.
- Energy prices declined 2.3% in June, while food prices were unchanged. The "core" CPI, which excludes food and energy, increased 0.3% in June, coming in above the consensus expected rise of 0.2%. Core prices are up 2.1% 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 1.5% in the past year. Real average weekly earnings are up 1.2% in the past year.





Implications: Consumer prices rose 0.1% in June and are up 1.6% in the past year, while "core" prices – a more reliable gauge of inflation that strips out the typically volatile food and energy components – rose 0.3% in June and are up 2.1% in the past twelve months. In fact, the 0.3% rise in core inflation is the largest monthly move since January of 2018, while the 2.1% increase over the past twelve months makes sixteen straight readings of 2%+ inflation on a year-over-year basis. Given the Fed's 2% inflation target, that should be a signal that everything is looking A-OK. Not too fast, not too slow, just right. But the Fed seems determined to cut rates at their meeting later this month, and we don't expect today's report – or last week's consensus beating employment report – to change their minds. A look at the details of today's report makes the fear of low inflation even more confusing. Headline inflation is up 1.6% in the past year, but up at a 2.1% annualized rate over the past six months, and a 1.8% annualized rate in the past three months. In other words, broad-based inflation isn't far from 2% and it's rising. In addition, the Cleveland Fed's median CPI series, which adjusts for both upside and downside outliers, shows inflation up 2.8% in the past year. No matter how you cut it, inflation is in-line with Fed targets, and shows no signs of the economic paralysis that bond markets are pricing in. Housing, used cars, and apparel led prices higher in June, more than offsetting a 2.3% decline in energy costs. We believe these data, as well as strength in trend inflation (which is far more important than single month readings) don't support the case for rate cuts. Moreover, unemployment is 3.7%, initial claims are near historic lows and there are 1.4 million more job openings than unemployed people. The data, if anything, suggests higher rates would be the more appropriate path based on economic fundamentals alone. As the year progresses and worst-case scenarios aren't realized, possibly catalyzed by resolution of trade tensions, we expect a return of confidence to the financial markets and a shift back towards a more "risk on" environment, putting upward pressure on longer-term interest rates. Among the best news in today's report was that real average hourly earnings rose 0.2% in June and are up 1.5% in the past year. With the strength in the labor market noted above, we believe that the trend higher will continue in the months ahead. Healthy consumer balance sheets, a strong job market, inflation in-line with Fed targets, and the continued tail winds from improved tax and regulatory policy, all reinforce our belief that the economy is on strong ground. In other news this morning, new claims for unemployment insurance fell 13,000 last week to 209,000. Initial claims have now been at or below 250,000 for a record ninety-two consecutive weeks. Continuing claims increased 27,000 to 1.723 million. These claims figures are both at very low levels, suggesting solid payroll growth continues in July.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	**Jun-19**	**May-19**	**Apr-19**	**3-mo % Ch. annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Consumer Price Index	**0.1%**	0.1%	0.3%	1.8%	2.1%	1.6%
Ex Food & Energy	**0.3%**	0.1%	0.1%	2.2%	2.1%	2.1%
Ex Energy	**0.3%**	0.1%	0.1%	2.0%	2.1%	2.1%
Energy	**-2.3%**	-0.6%	2.9%	-0.2%	1.2%	-3.4%
Food	**0.0%**	0.3%	-0.1%	0.8%	2.2%	1.9%
Housing	**0.3%**	0.1%	0.3%	2.8%	2.9%	3.0%
Owners Equivalent Rent	**0.3%**	0.3%	0.3%	3.7%	3.7%	3.4%
New Vehicles	**0.1%**	0.1%	0.1%	0.9%	1.3%	0.6%
Medical Care	**0.3%**	0.3%	0.3%	3.7%	2.5%	2.0%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.3%	3.0%	2.8%	2.8%
Real Average Hourly Earnings	**0.2%**	0.3%	-0.2%	1.1%	0.7%	1.5%

Source: U.S. Department of Labor