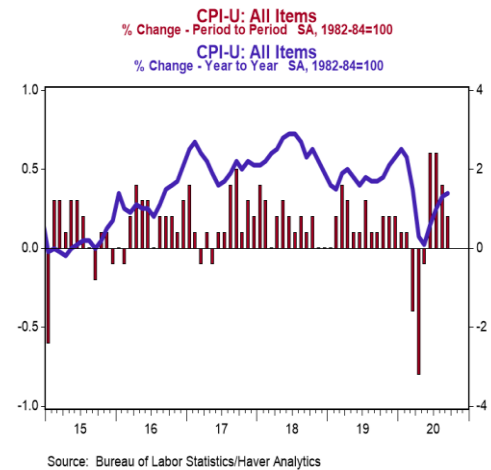


# September CPI

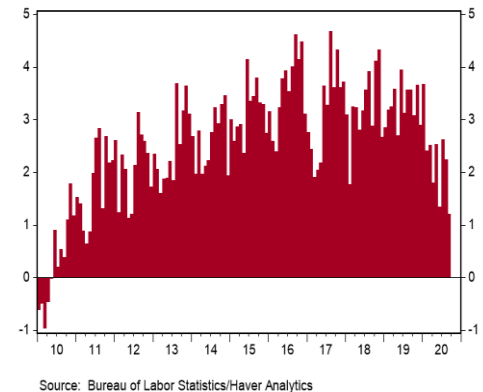
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- The Consumer Price Index (CPI) rose 0.2% in September, matching consensus expectations. The CPI is up 1.4% from a year ago.
- Energy prices rose 0.8% in September, while food prices were unchanged. The “core” CPI, which excludes food and energy, rose 0.2% in September, also matching consensus expectations. Core prices are up 1.7% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in September but are up 3.3% in the past year. Real average weekly earnings are up 4.1% in the past year.

**Implications:** Inflation was on the rise in the third quarter, as the consumer price index rose at one of the fastest 3-month paces since before the last recession. Over the past three months, consumer prices are up at a 4.7% annualized rate, well above the Federal Reserve’s inflation target of around 2%. However, don’t expect this to change the Fed’s plan to keep short-term rates near zero for the foreseeable future. Given the drop in prices earlier this year during the worst of the pandemic and related shutdowns, consumer prices are up a tepid 1.4% versus a year ago. Still, the recent burst of inflation hints at the impact the massive 23.6% increase in the M2 money supply can have as supply chains continue to recover. The typically volatile energy category rose 0.8% in September, led higher by a 4.2% increase in natural gas prices, while food prices were unchanged on the month. Strip out the impacts from the food and energy sectors, and “core” prices increased 0.2% in September. Coming off historically large increases in July and August, “core” inflation has been rising at the fastest pace since the early 1990s, although this follows declines in March through May and core prices are up a pedestrian 1.7% in the past year. One of the biggest drivers of “core” prices in September was used cars and trucks, where prices rose 6.7%, as dealers had lower inventory levels due to fewer trade-ins during the pandemic while they also experienced a surge in buyer demand. Some other contributors in July were hospital services (0.6%), new vehicles (0.3%), and housing (0.2%). We expect inflation will continue to rise in the months ahead toward the 2% - 3% annual pace of inflation that was in effect before the Coronavirus wreaked havoc on global economies. However, underlying fundamentals point to a higher risk of rising inflation than after the 2008 recession. The Coronavirus pandemic is the first recession on record where personal income has increased, due to government stimulus checks and boosted unemployment insurance payments that replaced greater than 100% of wages for many workers. Meanwhile, measures like industrial production and the unemployment rate demonstrate that the actual production of goods and services remains depressed relative to pre-pandemic levels. That mismatch between supply and demand will eventually mean too many dollars chasing too few goods, especially if further stimulus measures continue to lean on the same policies. That said, it’s clear that the economic recovery is under way, the worst economic quarter in the post-World War II era is behind us, and the question now shifts to how quickly we recover.



CPI-U: Owners' Equivalent Rent of Residences  
 % Change - Annual Rate



CPI - U	Sep-20	Aug-20	Jul-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Consumer Price Index</b>	<b>0.2%</b>	0.4%	0.6%	4.7%	1.8%	1.4%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.4%	0.6%	4.9%	1.9%	1.7%
<b>Ex Energy</b>	<b>0.2%</b>	0.3%	0.5%	3.9%	2.3%	2.0%
<b>Energy</b>	<b>0.8%</b>	0.9%	2.5%	18.2%	-6.5%	-7.7%
<b>Food</b>	<b>0.0%</b>	0.1%	-0.4%	-1.3%	5.1%	3.9%
<b>Housing</b>	<b>0.2%</b>	0.2%	0.3%	2.5%	1.9%	2.0%
<b>Owners Equivalent Rent</b>	<b>0.1%</b>	0.1%	0.2%	1.6%	1.8%	2.5%
<b>New Vehicles</b>	<b>0.3%</b>	0.0%	0.8%	4.5%	2.9%	1.0%
<b>Medical Care</b>	<b>0.0%</b>	0.1%	0.4%	1.9%	3.6%	4.2%
<b>Services (Excluding Energy Services)</b>	<b>0.0%</b>	0.2%	0.6%	3.0%	1.2%	1.9%
<b>Real Average Hourly Earnings</b>	<b>-0.1%</b>	0.0%	-0.5%	-2.4%	3.8%	3.3%

Source: U.S. Department of Labor

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