First Trust DATAWATCH

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February CPI

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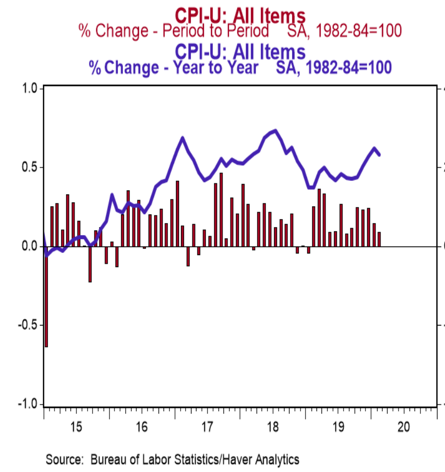
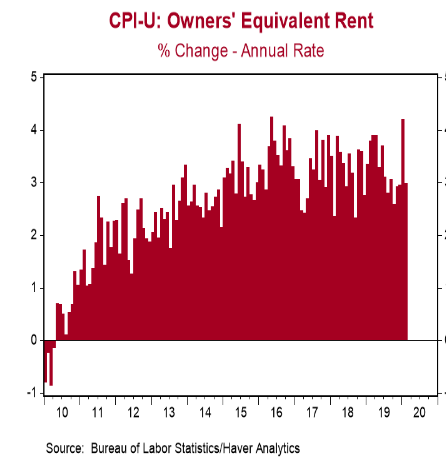
- The Consumer Price Index (CPI) rose 0.1% in February, coming in above the consensus expectation of no change. The CPI is up 2.3% from a year ago.
- Food prices increased 0.4% in February, while energy prices declined 2.0%. The "core" CPI, which excludes food and energy, increased 0.2% in February, matching consensus expectations. Core prices are up 2.4% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.3% in February and are up 0.6% in the past year. Real average weekly earnings are up 0.7% in the past year.





Implications: Consumer prices increased 0.1% in February, led by housing and food, but partially offset by a decline in energy costs. Outside of energy, prices also declined for air fares and recreation, most likely impacts from coronavirus concerns. Look for the virus - and the recent collapse in oil prices - to bring volatility to the data over the next few months, but keep in mind that these impacts are temporary. As they pass, the underlying trend in prices should continue. Consumer prices are up 2.3% in the past year, just off the largest twelve-month increase going back to August of 2018. Strip out the typically volatile food and energy sectors, and "core" prices rose 0.2% in February. Beyond housing, the indices for apparel, medical care, and personal care (think toothpaste and shampoo) helped lead prices higher. Core prices are up 2.4% in the past year, matching the highest annual increase we have seen since the recovery started. And "core" prices have hovered at or above the Fed's 2% inflation target for twenty-four consecutive months. Add in employment data continuing to show strength, and it's clear that the inter-meeting Fed rate cut we saw earlier this month was a reaction to concerns over what may come, not what we have seen so far. We do expect the Fed will cut rates by another 50 basis points, possibly more, at next Wednesday's meeting, but stand by our belief that the rate cuts aren't warranted or needed. On the wage front, average hourly earnings rose 0.3% in February and have increased 3.0% in the past year. Take out inflation, and "real" earnings still rose 0.3% in February but are up a more modest 0.6% in the past year. With the strength of the labor market, we believe earnings will trend higher in 2020. The virus and oil price plunge may pull wages down in the short-term, but again, those impacts will be temporary. Robust 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 economic fundamentals will continue to push US growth higher in the year ahead.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Feb-20	Jan-20	Dec-19	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.1%**	0.1%	0.2%	1.9%	2.2%	2.3%
Ex Food & Energy	**0.2%**	0.2%	0.1%	2.4%	2.2%	2.4%
Ex Energy	**0.2%**	0.2%	0.1%	2.5%	2.2%	2.3%
Energy	**-2.0%**	-0.7%	1.6%	-4.5%	1.2%	2.8%
Food	**0.4%**	0.2%	0.2%	3.0%	2.5%	1.8%
Housing	**0.2%**	0.3%	0.1%	2.7%	2.7%	2.7%
Owners Equivalent Rent	**0.2%**	0.3%	0.2%	3.4%	3.1%	3.3%
New Vehicles	**0.1%**	0.0%	0.1%	0.9%	-0.1%	0.4%
Medical Care	**0.1%**	0.2%	0.5%	3.0%	4.4%	4.6%
Services (Excluding Energy Services)	**0.2%**	0.3%	0.2%	3.2%	3.2%	3.1%
Real Average Hourly Earnings	**0.3%**	0.0%	-0.1%	0.7%	0.4%	0.6%

Source: U.S. Department of Labor