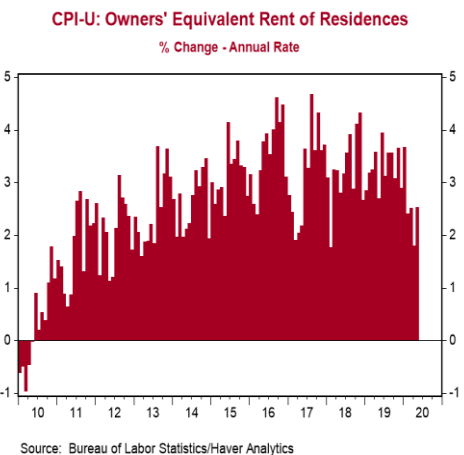
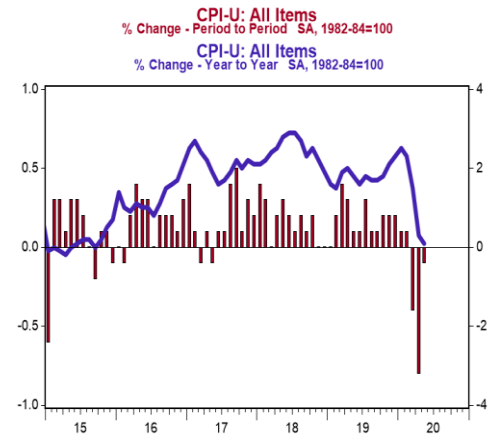


# May CPI

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- The Consumer Price Index (CPI) declined 0.1% in May, versus the consensus expected no change. The CPI is up 0.1% from a year ago.
- Energy prices declined 1.8% in May, while food prices rose 0.7%. The “core” CPI, which excludes food and energy, declined 0.1% in May, also versus a consensus expectation for no change. Core prices are up 1.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.9% in May but are up 6.5% in the past year. Real average weekly earnings are up 7.4% in the past year.

**Implications:** Following back-to-back months of large declines, the consumer price index (CPI) moderated in May, down 0.1%. Gasoline prices (-3.5%), motor vehicle insurance (-8.9%) and apparel (-2.3%) lead the decline in the CPI, and were key contributors to April’s decline as well. Food prices, meanwhile, rose 0.7% in May, as costs for meats, poultry, fish, and eggs continue to feel the impact from the shutdown of plants that were hotspots amid the COVID outbreak. The beef index alone surged 10.8% in May, the largest increase for that series since recording began back in 1947. Strip out the (largely offsetting) impacts from the typically volatile food and energy sectors, and “core” prices still declined 0.1% in May. This is the third consecutive month of decline in core prices, something we have never seen in the CPI’s records (core price data go back to 1957). The Coronavirus and government-mandated shutdowns continue to impact the data, and while the states have broadly started the reopening process, businesses continue to operate under some restrictions of reduced capacity, which looks likely to continue for the next few months. We expect prices will begin to move back toward positive monthly readings in the months ahead, and ultimately rise towards the 2% - 3% annual pace on inflation that was in effect before the Coronavirus wreaked havoc on global economies. The worst appears to be behind us, and indications from the employment front suggest [that the economy bottomed back in May](#), making the COVID recession one of the sharpest recessions on record, but also the shortest. Even with the declines over the last three months, consumer prices are still up 0.1% in the past year, though that is a marked slowdown versus the upward trend in inflation prior to the Coronavirus. Core prices remain up 1.2% versus a year ago. What might, at first glance, look like the worst news in today’s report was that “real” (inflation-adjusted) average hourly earnings fell 0.9% in May. However, the May decline is actually a positive signal. As the economy lost more than 22 million jobs in March and April, lower wage sectors were hit particularly hard. With fewer workers operating in the lower wage positions, it pushed up the average hourly wage among those whose jobs remained. [As we saw in last Friday’s employment report](#), the 2.5 million net nonfarm jobs that returned in May started the process of bringing those lost jobs back. In the months ahead, real earnings per hour will likely continue to decline as this return to work continues. The economic recovery has begun, and the data over the coming months will show us how quickly the return to “normal” is taking place.



CPI - U	May-20	Apr-20	Mar-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>-0.1%</b>	-0.8%	-0.4%	-5.0%	-1.6%	0.1%
<b>Ex Food &amp; Energy</b>	<b>-0.1%</b>	-0.4%	-0.1%	-2.4%	0.0%	1.2%
<b>Ex Energy</b>	<b>0.1%</b>	-0.2%	0.0%	-0.6%	0.9%	1.6%
<b>Energy</b>	<b>-1.8%</b>	-10.1%	-5.8%	-52.3%	-32.5%	-18.9%
<b>Food</b>	<b>0.7%</b>	1.5%	0.3%	10.7%	6.7%	4.0%
<b>Housing</b>	<b>0.2%</b>	0.0%	0.0%	0.5%	1.6%	2.1%
<b>Owners Equivalent Rent</b>	<b>0.3%</b>	0.2%	0.3%	2.8%	3.1%	3.1%
<b>New Vehicles</b>	<b>0.3%</b>	0.0%	-0.4%	-0.6%	0.2%	-0.3%
<b>Medical Care</b>	<b>0.5%</b>	0.4%	0.4%	5.4%	4.2%	4.9%
<b>Services (Excluding Energy Services)</b>	<b>0.0%</b>	-0.4%	0.0%	-1.7%	0.7%	2.0%
<b>Real Average Hourly Earnings</b>	<b>-0.9%</b>	5.6%	1.0%	24.5%	12.0%	6.5%

Source: U.S. Department of Labor

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.