First Trust DATAWATCH

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September CPI

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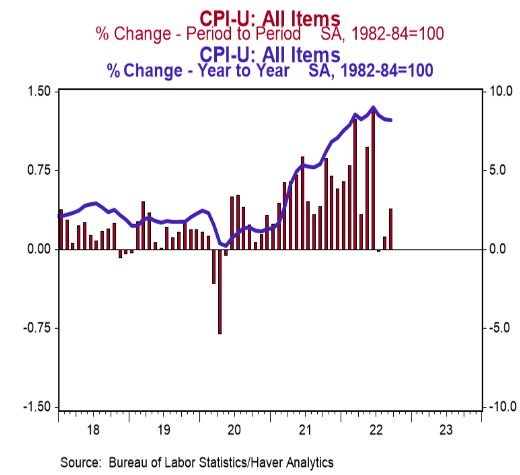
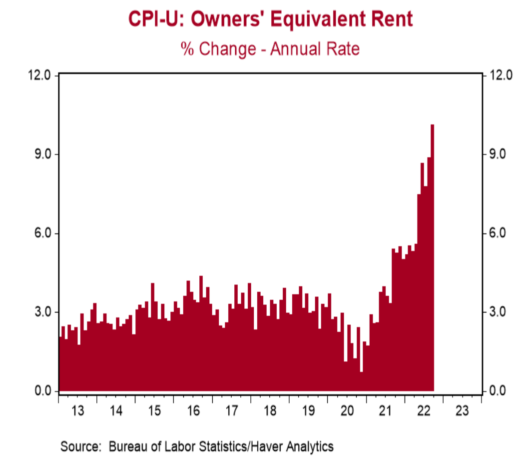
- The Consumer Price Index (CPI) rose 0.4% in September, well above the consensus expected +0.2%. The CPI is up 8.2% from a year ago.

- Food prices increased 0.8% in September, while energy prices dropped 2.1%. The "core" CPI, which excludes food and energy, rose 0.6% in September, well above the consensus expected +0.4%. Core prices are up 6.6% versus a year ago.

- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in September and are down 3.0% in the past year. Real average weekly earnings are down 3.8% in the past year.





Implications: Inflation is still a major problem. Overall consumer prices rose 0.4% in September, well above the consensus expected gain of 0.2%. Once again, it was held down by the volatile energy sector, which declined 2.1% in September due to a 4.9% drop in gasoline prices. Excluding energy, consumer prices rose 0.6% in September. Meanwhile, the other typically volatile category – food prices – posted the ninth consecutive monthly increase of at least 0.8%, on the back of higher costs for every major grocery-store food group. Overall, consumer prices are up 8.2% from a year ago. While consumer prices may have peaked on a year-ago basis back in June, they still have an incredibly long way to go to get back to the Federal Reserve's 2.0% target. Less than three weeks ago the Fed projected 2.8% PCE inflation in 2023. We expect the path toward normal to be far stickier than that. Stripping out the food and energy categories makes the inflation picture look even uglier. "Core" prices rose 0.6% in September, pushing the 12-month increase to a new post-pandemic peak of 6.6%, the highest in four decades. A broad range of categories contributed to the monthly rise, most notably prices for housing rents (+0.8%), medical services (+1.0%), motor vehicle insurance (+1.6%), and new vehicles (+0.7%). Housing rents (for both actual tenants and the rental value of owner-occupied homes) continue to accelerate, posting the largest monthly increases in more than thirty years. Rents have been a key driver of inflation in 2022, and should continue to do so in 2023-24 because they make up more than 30% of the overall CPI and still have a long way to go to catch up to home prices, which skyrocketed during COVID. Even more troublesome, inflation has persisted despite improvement in factors that were supposedly keeping it elevated (think energy prices and prices for used vehicles, which declined 1.1% in September). That's because overall inflation has been – and always is – a monetary phenomenon. The problem is that the Fed thinks it can manage inflation just by targeting short-term rates. We think the Fed needs to focus less on hiking interest rates and more on keeping the growth in the money supply under consistent control. In the meantime, expect to see another 75 basis point hike in short-term rates in early November. In other news today, initial claims for unemployment insurance rose 9,000 last week to 228,000. Continuing claims rose 3,000 to 1.368 million. These figures remain very low by historical standards and are consistent with continued job growth in October.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	**Sep-22**	**Aug-22**	**Jul-22**	**3-mo % Ch. annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Consumer Price Index	**0.4%**	0.1%	0.0%	2.0%	6.4%	8.2%
Ex Food & Energy	**0.6%**	0.6%	0.3%	6.0%	6.9%	6.6%
Ex Energy	**0.6%**	0.6%	0.4%	6.7%	7.7%	7.3%
Energy	**-2.1%**	-5.0%	-4.6%	-38.0%	-6.9%	19.8%
Food	**0.8%**	0.8%	1.1%	11.2%	12.0%	11.2%
Housing	**0.7%**	0.8%	0.4%	8.3%	8.8%	8.0%
Owners Equivalent Rent	**0.8%**	0.7%	0.6%	8.9%	8.1%	6.7%
New Vehicles	**0.7%**	0.8%	0.6%	8.8%	10.2%	9.4%
Medical Care	**0.8%**	0.7%	0.4%	8.0%	7.1%	6.0%
Services (Excluding Energy Services)	**0.8%**	0.6%	0.4%	7.1%	7.8%	6.7%
Real Average Hourly Earnings	**-0.1%**	0.2%	0.6%	2.6%	-1.8%	-3.0%

Source: U.S. Department of Labor