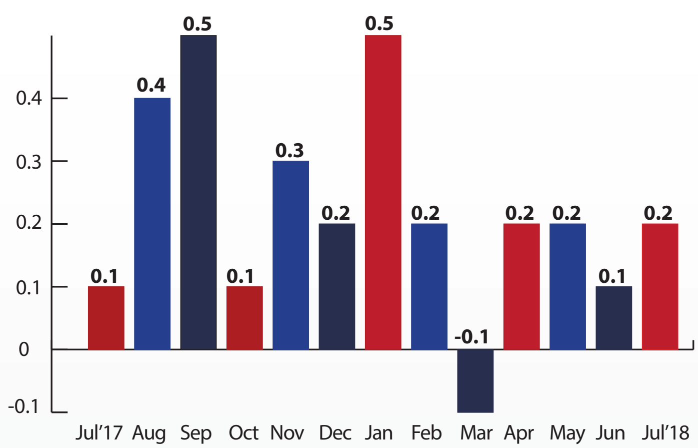
**International Association of Machinists and Aerospace Workers**

August 2018

# Inflation and Wages

The July 2018 Consumer Price Index (CPI) inflation figures rose to 2.9 percent from a year ago, with the CPI rising by 0.2 percent from June. The annual inflation rate is below market expectations of 3 percent. The core CPI (which excludes food and energy) has risen by 2.4 percent, while a core index that excludes shelter has risen by just 1.5 percent. According to Federal Reserve of New York median inflation expectation at both the one- and three-year year forecast is predicted to remain unchanged at 3 percent.

**One-month percentage change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, July 2017- July 2018**




Source: Bureau of Labor Statistics

Core goods prices rose 0.1 percent, for the first gain in five months. Higher prices for new and used autos were a big help, up 0.3 percent and 1.3 percent, respectively. Prices for apparel and medical care goods both declined on the month. Energy prices fell by 0.5 percent in July after falling 0.3 percent in June. It is believed that rising rents remain the source of inflation which is driven by shortages of housing in desirable markets.

Other measures of inflation such as the Everyday Price Index (EPI is an index which measures everyday purchases such as groceries, restaurant meals, gasoline, and utilities) shows that over the past 12 months, the EPI rose to 3.8 percent.

In terms of wages, the rise in inflation over the past year has shown that wages have not been keeping pace with inflation and produced negative real wage rates. For instance, as stated previously, year to year CPI is at 2.9 percent while average wages increased by 2.7 percent, a difference of 0.2 percentage point. Real average hourly earnings (wages adjusted for inflation) for all employees decreased by -0.2 percent, from July 2017 to July 2018.

Further, real average hourly earnings for production and nonsupervisory decreased (- 0.4 percent) from July 2017 to July 2018 and by -0.1 percent from June 2018 to July2018. According to the U.S. Department of Labor, the decline stems from a 0.1-percent increase in average hourly earnings combined with a 0.1-percent increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Given the current inflation numbers there is still debate on whether or not the Federal Reserve will raise interest rates either in September or December.