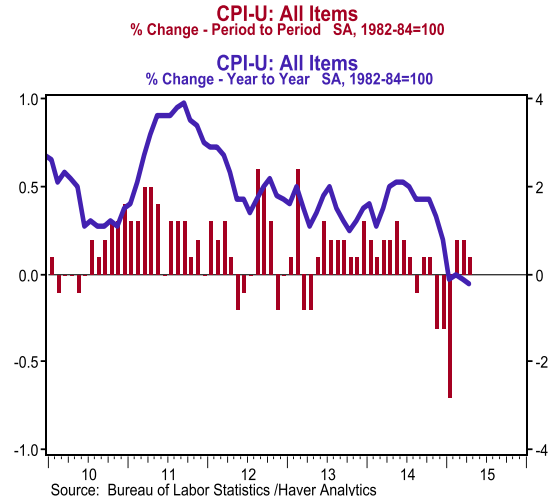


April CPI

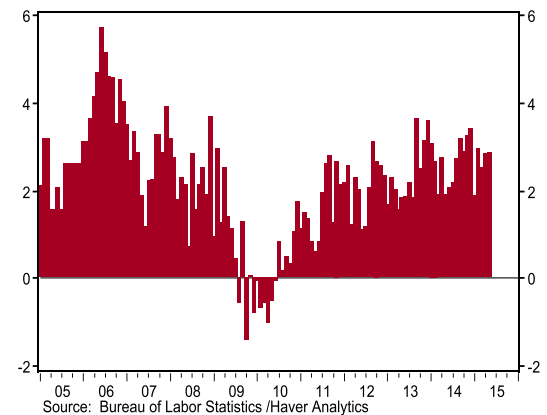
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Economist

- The Consumer Price Index (CPI) increased 0.1% in April, matching consensus expectations. The CPI is down 0.2% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was unchanged in April and down 0.9% in the past year.
- Food prices were unchanged in April, while energy prices declined 1.3%. The “core” CPI, which excludes food and energy, increased 0.3% in April, above the consensus expected 0.2%. Core prices are up 1.8% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – were unchanged in April but are up 2.3% in the past year. Real *weekly* earnings are also up 2.3% in the past year.

Implications: The CPI told a tale of two prices in April; prices for energy and prices for everything else. Overall consumer prices rose 0.1% in April but have remained flat to slightly negative on a year-over-year basis through the first four months of 2015. This is due to energy prices, which fell 1.3% in April and are down 19.4% from a year ago. However “core” prices, which exclude food and energy, increased 0.3% in April, the largest monthly gain in two years, and are up 1.8% in the past twelve months, 1.9% annualized in the last six months, and 2.6% annualized since January; the fastest 3-month pace since August 2011. In other words, underlying inflation trends are accelerating. With core prices so close to the Fed’s two percent inflation target, policymakers should remain concerned about future increases in inflation, even with overall consumer prices near zero. “Core” consumer prices in April were led higher by housing. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.3% in April, is up 2.8% in the past year, and will be a key source of higher inflation in the year ahead. One surprise in today’s report was a 0.7% increase in prices for medical care, the largest monthly gain since 2007. This rise was almost entirely due to an increase in the prices for hospital services. Some analysts will use the fact that overall prices are down slightly from a year ago to warn about “Deflation.” But true deflation – of the kind we ought to be concerned about – is caused by overly tight monetary policy and price declines that are widespread, not isolated to one sector of the economy. Think of the Great Depression. Meanwhile, food prices were unchanged in April, but are still up 2% in the past 12 months, so if you only use the supermarket to gauge inflation, we understand thinking the headline reports are too low and “true” inflation is higher. On the earnings front, “real” (inflation-adjusted) average hourly earnings were flat in April, but are up a healthy 2.3% in the past year and have been growing at a faster 3.9% over the past six months, signaling that consumer purchasing power continues to grow. The bottom line is that if it weren’t for the decline in energy prices, inflation would be very close to the Fed’s two percent target. The Fed knows that the decline in energy prices is a temporary factor, and the continued rise in core prices should keep a June rate hike on the table.



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



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Apr-15	Mar-15	Feb-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.1%	0.2%	0.2%	2.2%	-1.5%	-0.2%
Ex Food & Energy	0.3%	0.2%	0.2%	2.6%	1.9%	1.8%
Ex Energy	0.2%	0.2%	0.2%	2.2%	1.7%	1.8%
Energy	-1.3%	1.1%	1.0%	3.4%	-30.8%	-19.4%
Food and Beverages	0.0%	-0.2%	0.1%	-0.1%	0.7%	1.9%
Housing	0.2%	0.1%	0.2%	2.0%	1.9%	2.2%
Owners Equivalent Rent	0.3%	0.3%	0.2%	3.2%	2.8%	2.8%
New Vehicles	0.1%	0.2%	0.2%	2.2%	0.7%	0.8%
Medical Care	0.7%	0.3%	0.0%	4.1%	3.7%	2.9%
Services (Excluding Energy Services)	0.3%	0.2%	0.1%	2.8%	2.7%	2.5%
Real Average Hourly Earnings	0.0%	0.0%	-0.1%	-0.4%	3.9%	2.3%

Source: U.S. Department of Labor

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