

Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

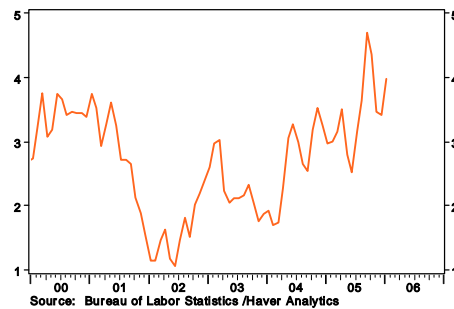
JANUARY CPI

- The Consumer Price Index (CPI) rose a more-than-expected 0.7% in January following a 0.1% decline in December. The YOY gain in the CPI accelerated to 4.0% last month from 3.4% in December.
- Energy prices surged 5.0% last month, the first increase in the last four months. Food and beverage prices rose 0.5%. Excluding food and energy, the “core” CPI was up 0.2% last month. “Core” consumer prices are up 2.1% in the past year - a deceleration from December’s YOY gain of 2.2%.

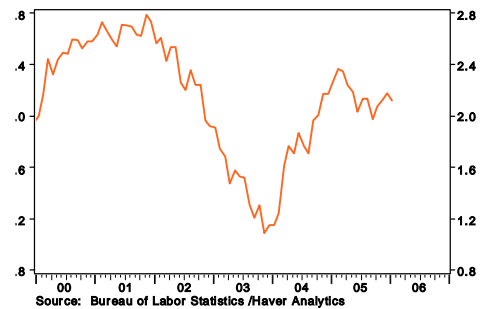
Implications: Consumer prices jumped 0.7% in January, above consensus expectations of a 0.5% gain. Much of the increase can be attributed to a 5.0% surge in energy prices. Excluding food and energy, the “core” CPI rose a modest 0.2% in

January and is up 2.1% in the past year. While this YOY rate of “core” consumer price inflation remains low by historical standards, it is near double the inflation rate during the 12-months ending in January 2004 of 1.1%. Moreover, the minutes from January’s Fed meeting indicate that Fed members are worried about elevated energy price seeping through to “core” inflation. Today’s report will only increase their concerns. With energy prices still high, “core” inflation on an upward trend, unemployment low and economic growth robust, the Fed’s models are almost certainly calling for more tightening. As long as gold and commodity prices remain elevated and the real fed funds rate remains low, we will agree with this diagnosis. We continue to expect a 5.0% fed funds rate by May of this year.

CPI-U: All Items
 % Change - Year to Year



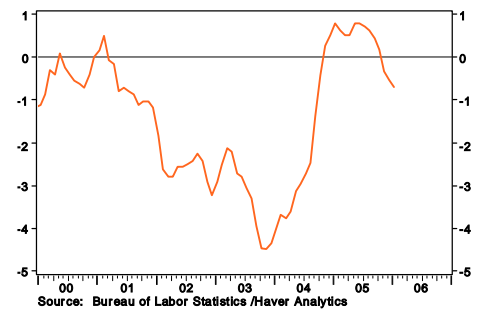
CPI-U: All Items Less Food and Energy
 % Change - Year to Year



CPI-U: Medical Care
 % Change - Year to Year



CPI-U: Durables
 % Change - Year to Year



CPI - U <i>all data seasonally adjusted</i>	Jan-06	Dec-05	Nov-05	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch.
Consumer Price Index	0.7%	-0.1%	-0.7%	-0.2%	4.0%	4.0%
X Food & Energy	0.2%	0.1%	0.2%	2.4%	2.2%	2.1%
X Energy	0.2%	0.2%	0.2%	2.4%	2.3%	2.2%
Energy	5.0%	-2.1%	-8.1%	-20.6%	23.1%	24.8%
Food and Beverages	0.5%	0.1%	0.3%	3.4%	2.7%	2.6%
Housing	0.5%	0.2%	0.4%	4.1%	5.3%	4.3%
Apparel	0.3%	-0.3%	0.1%	0.7%	0.8%	-1.0%
Transportation	1.8%	-0.7%	-4.9%	-14.7%	4.1%	7.3%
- New Vehicles	0.6%	-0.1%	-0.1%	1.5%	1.3%	-0.4%
Medical Care	0.1%	0.2%	0.5%	3.5%	3.7%	4.0%
Recreation	0.0%	0.1%	-0.1%	0.0%	1.7%	0.9%
Education & Communication	0.4%	0.2%	0.4%	4.3%	3.4%	2.7%
Commodities	0.9%	-0.3%	-2.2%	-6.4%	2.6%	3.8%
Commodities x Food & Beverages	1.1%	-0.6%	-3.6%	-11.6%	2.5%	4.5%
Services	0.5%	0.1%	0.4%	4.2%	4.9%	4.1%
Services x Energy Services	0.2%	0.3%	0.3%	3.1%	2.9%	2.9%
Other Goods & Services	0.3%	0.4%	0.3%	4.0%	3.0%	2.9%

Source: U.S. Department of Commerce

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.