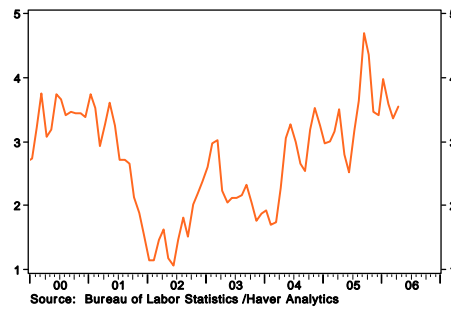


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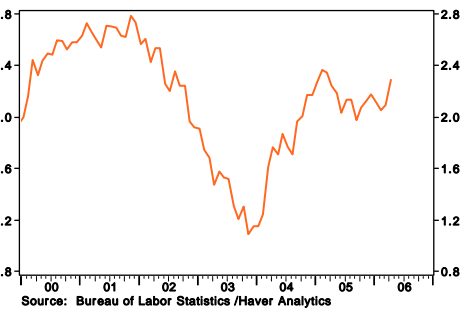
APRIL CPI

- The Consumer Price Index (CPI) rose a more-than-expected 0.6% in April, versus a 0.4% increase in March. The 12-month change in the CPI accelerated to 3.5% last month from 3.4% in March.
- Energy prices jumped 3.9% in April and are up 17.8% in the past year. Food and beverage prices were flat last month. Excluding food and energy, the “core” CPI was up 0.3% in April – the second consecutive month that “core” inflation has increased faster than expected. The “core” CPI has increased 3.2% at an annual rate in the past three months, the fastest three-month change in over 10 years. The 12-month change in the “core” CPI accelerated to 2.3% last month versus 2.1% in March.

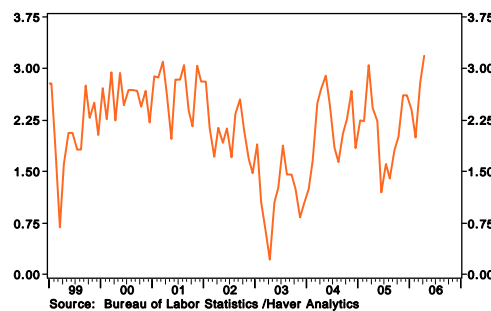
CPI-U: All Items
 % Change - Year to Year



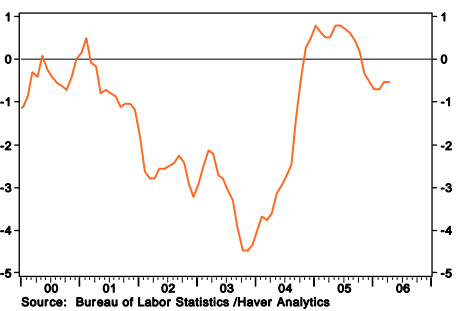
CPI-U: All Items Less Food and Energy
 % Change Year to Year



CPI-U: All Items Less Food and Energy
 3-month %Change-ann



CPI-U: Durables
 % Change - Year to Year



Implications: While the surge in energy prices (up 3.9% in April) is occupying most of the headlines, prices of other consumer good are rising. At annual rates, the “core” CPI has increased 2.3% in the past year, 2.8% in the past six months, and 3.2% in the past three months. Inflation has clearly accelerated and recent data put it well above the Fed’s comfort zone. Because of a lag in monetary policy, Fed action takes roughly 18-24 months to show up in consumer price data. As a result, the recent acceleration in the “core” CPI is likely a reflection of past accommodation by the Fed. Monetary policy’s impact on market based indicators, such as gold and the dollar, is not lagged. These bellwethers are signaling that Fed policy is accommodative today and suggest that consumer prices will likely accelerate for the rest of 2006 regardless of the Fed’s next move. This puts the Fed squarely behind the inflation curve, which is clearly spooking the equity markets. We believe the Fed is beginning to recognize this reality and will lift rates to neutral (between 5.5%-6.0%) in 2006. This would be the best policy for the economy and equities.

CPI - U <i>all data seasonally adjusted</i>	Apr-06	Mar-06	Feb-06	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr over Yr % Ch.
Consumer Price Index	0.6%	0.4%	0.1%	4.1%	1.9%	3.5%
X Food & Energy	0.3%	0.3%	0.1%	3.2%	2.8%	2.3%
X Energy	0.2%	0.2%	0.2%	2.8%	2.6%	2.2%
Energy	3.9%	1.3%	-1.2%	16.9%	-3.7%	17.8%
Food and Beverages	0.0%	0.1%	0.2%	0.8%	2.1%	1.8%
Housing	0.1%	0.2%	0.1%	2.0%	3.0%	3.8%
Apparel	0.6%	1.0%	-1.0%	2.4%	1.5%	-0.2%
Transportation	2.4%	0.9%	-0.2%	13.3%	-1.7%	6.3%
- New Vehicles	-0.1%	-0.1%	0.1%	-0.3%	0.6%	-0.3%
Medical Care	0.4%	0.4%	0.5%	5.2%	4.3%	4.1%
Recreation	0.3%	0.4%	0.1%	2.9%	1.5%	1.7%
Education & Communication	0.3%	0.2%	0.2%	2.8%	3.5%	2.6%
Commodities	1.1%	0.6%	-0.1%	6.3%	-0.2%	3.2%
Commodities x Food & Beverages	1.7%	0.8%	-0.3%	9.5%	-1.6%	4.0%
Services	0.2%	0.2%	0.2%	2.6%	3.4%	3.7%
Services x Energy Services	0.3%	0.3%	0.3%	4.1%	3.6%	3.1%
Other Goods & Services	0.0%	0.2%	0.1%	1.3%	2.6%	2.7%

Source: U.S. Department of Labor

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