

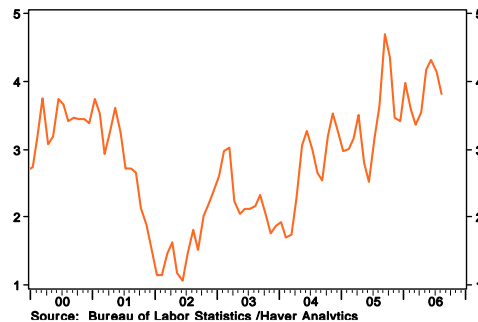
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## AUGUST CPI

- The Consumer Price Index (CPI) rose 0.2% in August after a 0.4% increase in July. The CPI has increased 3.8% in the past year
- Energy prices rose 0.3% in August after a 2.9% jump in July. Food and beverage prices increased 0.4% last month. Excluding food and energy, the “core” CPI was up 0.2% in August (0.24% unrounded). The “core” CPI is up an annualized 3.0% in the past three months and 2.8% in the past year – the fastest YOY gain since 2001.

**Implications:** While the conventional wisdom is celebrating the notion that inflation is contended, the data show price pressures at the consumer level remain widespread. The 12-month change in the “core” CPI is up 2.8% in the past year - a post recession high. This steady buildup in inflationary pressures suggests easy Fed policy has made its way to consumer prices. Moreover, forward-looking measures suggest that inflationary pressures have yet to peak. Gold is still 34% above the 2005 average and the dollar has lost 4.7% of its value against the Euro this year. We expect the YOY gain in the “core” CPI to reach 3.0% in the next 12 months. This will give the Fed another reason to restart rate hikes.

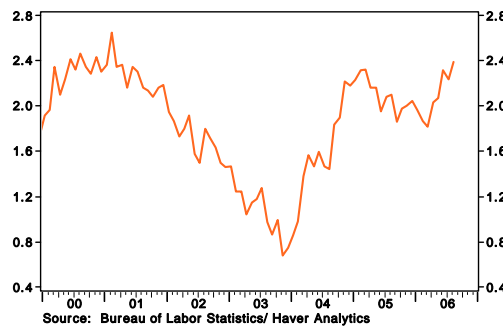
**CPI-U: All Items**  
 % Change - Year to Year



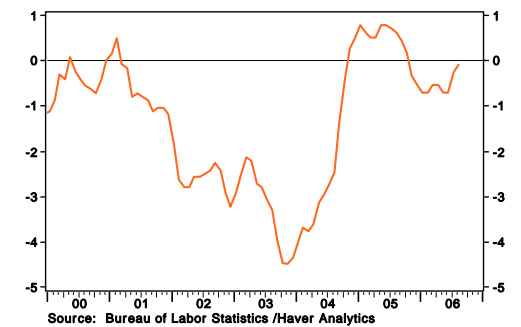
**CPI-U: All Items Less Food and Energy**  
 % Change Year to Year



**Core CPI less Homeowners' Equivalent Rent**  
 % Change - Year to Year SA, 1983-84=100



**CPI-U: Durables**  
 % Change - Year to Year



Moreover, forward-looking measures suggest that inflationary pressures have yet to peak. Gold is still 34% above the 2005 average and the dollar has lost 4.7% of its value against the Euro this year. We expect the YOY gain in the “core” CPI to reach 3.0% in the next 12 months. This will give the Fed another reason to restart rate hikes.

<b>CPI - U</b> <i>all data seasonally adjusted</i>	<b>Aug-06</b>	<b>Jul-06</b>	<b>Jun-06</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr over Yr</b> <b>% Ch.</b>
<b>Consumer Price Index</b>	<b>0.2%</b>	0.4%	0.2%	3.6%	4.7%	3.8%
<b>X Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.3%	3.0%	3.4%	2.8%
<b>X Energy</b>	<b>0.2%</b>	0.2%	0.3%	3.0%	3.1%	2.8%
<b>Energy</b>	<b>0.3%</b>	2.9%	-0.9%	9.4%	21.6%	15.1%
<b>Food and Beverages</b>	<b>0.3%</b>	0.2%	0.3%	3.1%	2.0%	2.5%
<b>Housing</b>	<b>0.2%</b>	0.3%	0.2%	3.4%	3.2%	4.2%
<b>- Owners Equivalent Rent</b>	<b>0.3%</b>	0.4%	0.4%	4.5%	5.0%	3.9%
<b>Apparel</b>	<b>0.9%</b>	-1.2%	0.0%	-1.0%	3.1%	0.3%
<b>Transportation</b>	<b>0.2%</b>	1.6%	-0.2%	6.6%	13.5%	6.1%
<b>- New Vehicles</b>	<b>-0.1%</b>	0.1%	-0.1%	0.0%	-0.9%	1.0%
<b>Medical Care</b>	<b>0.4%</b>	0.2%	0.3%	3.5%	4.0%	4.3%
<b>Recreation</b>	<b>-0.1%</b>	0.3%	0.1%	1.1%	2.2%	1.8%
<b>Education &amp; Communication</b>	<b>0.3%</b>	0.3%	0.3%	3.8%	3.0%	3.3%
<b>Commodities</b>	<b>0.2%</b>	0.7%	0.0%	3.9%	6.8%	3.4%
<b>Commodities x Food &amp; Beverages</b>	<b>0.2%</b>	0.9%	-0.1%	4.1%	9.6%	4.0%
<b>Services</b>	<b>0.3%</b>	0.3%	0.3%	3.6%	3.3%	4.2%

Source: U.S. Department of Labor

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