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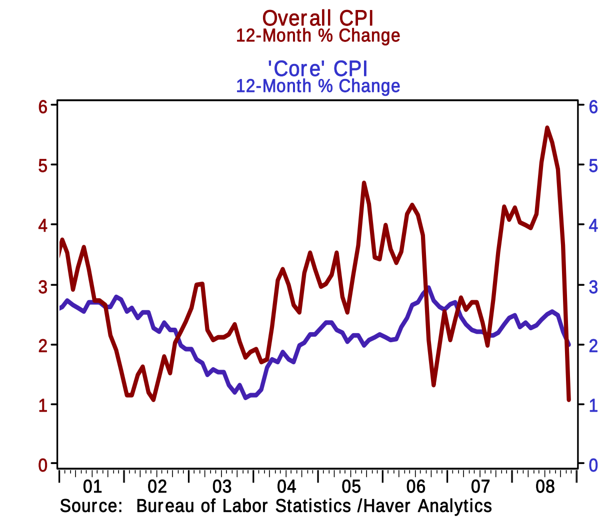
NOVEMBER CPI

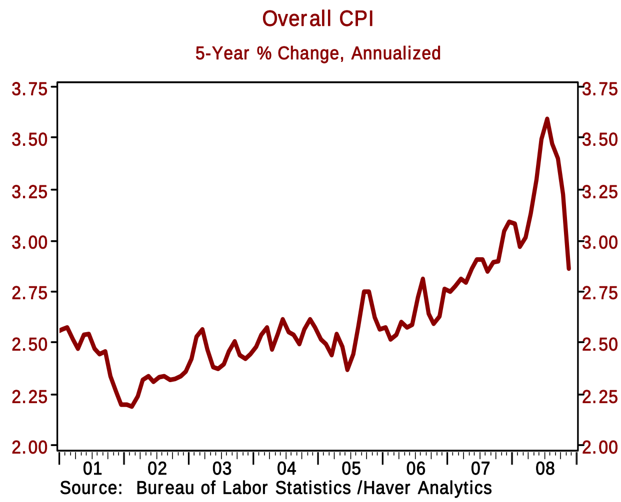
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) dropped 1.7% in November versus a consensus expected decline of 1.3%. The CPI is up 1.1% versus a year ago.
- Energy prices, which fell 17.0%, accounted for the entire decline in the CPI in November. Food and beverage prices were up 0.2% in November and are up 5.9% versus a year ago.
- Excluding food and energy, the "core" CPI was unchanged in November and is up 2.0 % versus a year ago. Excluding energy, the CPI was unchanged in November and is up 2.6% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were up 2.5% in November, are up at an 18.8% annual rate in the past three months, and are up 3.1% versus a year ago.



Source: Bureau of Labor Statistics /Haver Analytics

Implications: Due to plummeting energy prices, overall consumer prices dropped 1.7% in November, the fastest decline since the 1930s. Coming on the heels of a 1% drop in October and given the continued decline in gas prices in December, year-to-year CPI inflation (now 1.1%, and as high as 5.6% in July) is more likely than not going negative for December and will stay that way deep into 2009. Although energy prices were the cause for the drop in overall prices, "core" prices were unchanged in November after falling 0.1% in October. The November weakness in core prices was largely due to autos, both new and used, a manifestation of the recent drop in the velocity of money. However, inflation is not dead; it is just hibernating. Once velocity picks up – and recent retail activity suggests this is starting to happen – monthly measures of inflation will accelerate. Due to the massive liquidity the Federal Reserve has injected (and will continue to inject) into the financial system, inflation will again be a problem in 2010 and beyond. Meanwhile, inflation-adjusted hourly earnings are soaring. Real average hourly earnings spiked 2.5% in November, the largest gain on record (going back to 1964). The 3.1% increase versus a year ago is the largest since 1972.



Source: Bureau of Labor Statistics /Haver Analytics

CPI - U All Data Seasonally Adjusted	Nov-08	Oct-08	Sep-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-1.7%	-1.0%	0.0%	-10.2%	-1.9%	1.1%
Ex Food & Energy	0.0%	-0.1%	0.1%	0.4%	1.9%	2.0%
Ex Energy	0.0%	0.0%	0.2%	0.9%	2.6%	2.6%
Energy	-17.0%	-8.6%	-1.9%	-69.3%	-36.1%	-13.3%
Food and Beverages	0.2%	0.3%	0.6%	4.1%	6.6%	5.9%
Housing	-0.1%	0.0%	-0.1%	-1.0%	1.6%	2.7%
Owners Equivalent Rent	0.3%	0.1%	0.2%	2.6%	2.3%	2.3%
New Vehicles	-0.6%	-0.5%	-0.7%	-6.9%	-3.7%	-2.9%
Medical Care	0.2%	0.2%	0.3%	2.9%	2.5%	2.7%
Services (Excluding Energy Services)	0.1%	0.0%	0.3%	1.7%	2.7%	2.9%
Real Average Hourly Earnings	2.5%	1.6%	0.2%	18.8%	7.2%	3.1%

Source: U.S. Department of Labor