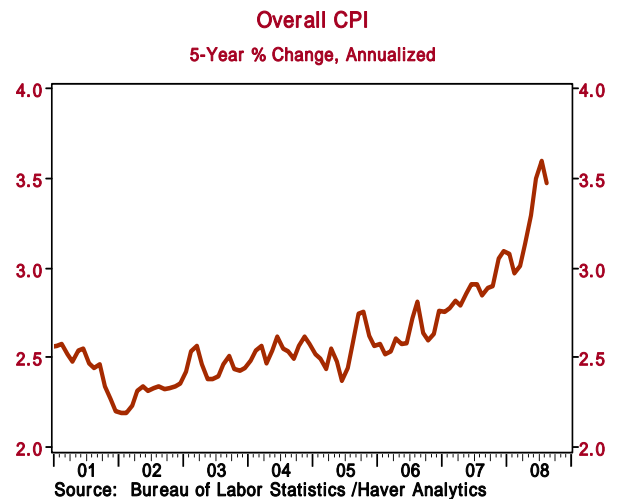
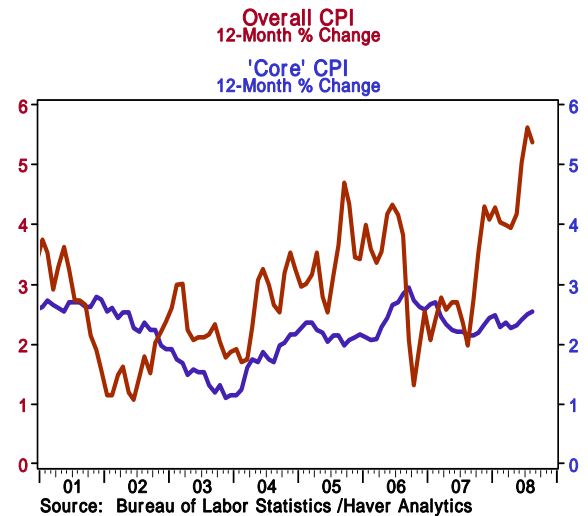


AUGUST CPI

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- The Consumer Price Index (CPI) declined 0.1% in August, exactly as the consensus expected. The CPI is up 5.4% versus a year ago, still near the highest since 1991.
- All the decline in the CPI was due to energy prices, which fell 3.1% in August, but are still up 27.2% versus last year. The food and beverage prices were up 0.6% in August and are up 5.9% versus a year ago.
- Excluding food and energy, the “core” CPI was up 0.2% in August and is up 2.5% versus a year ago. Then, excluding energy, the CPI was up 0.3% in August and is up 3.1% versus a year ago.
- Real average hourly earnings – the cash earnings of production workers – were up 0.6% in August but are down 2.2% versus a year ago.

Implications: Don't be fooled by the August decline in consumer prices or what is likely to be another benign report next month. This seemingly good news is all due to the recent sharp decline in energy prices. We continue to believe inflation is the leading economic menace in the US. Consumer prices are up 5.4% versus last year, near the largest increase since 1991. Excluding the 1990-91 period – when oil prices soared in part due to Iraq's invasion of Kuwait – CPI inflation is the highest since 1982. In the months ahead, the year-to-year price comparisons are likely to decline to the underlying trend in inflation, which is in the 3.5% to 4% range. This is still too high and would not justify further interest rate cuts by the Federal Reserve. Notice the accelerating trend in the “core” CPI, which excludes food and energy. These prices are up 2.5% versus last year, but up at a 3.4% annual rate in the past three months. We expect further acceleration in the core CPI as the drop in energy prices gives consumers more money to spend on other goods and services. This month we got a glimpse of the potential benefits of fighting inflation. The drop in the headline CPI means that real (inflation-adjusted) average hourly earnings increased 0.6% in August, the strongest monthly gain in almost two years. We do not need more rebate checks to increase consumer purchasing power; we need lower inflation.



CPI - U <i>All Data Seasonally Adjusted</i>	Aug-08	Jul-08	Jun-08	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-0.1%	0.8%	1.1%	7.2%	6.0%	5.4%
Ex Food & Energy	0.2%	0.3%	0.3%	3.4%	2.6%	2.5%
Ex Energy	0.3%	0.4%	0.4%	4.4%	3.4%	3.1%
Energy	-3.1%	4.0%	6.6%	32.9%	30.6%	27.2%
Food and Beverages	0.6%	0.9%	0.7%	9.1%	7.5%	5.9%
Housing	-0.1%	0.6%	0.5%	4.2%	4.5%	3.8%
Owners Equivalent Rent	0.1%	0.1%	0.3%	2.1%	2.1%	2.5%
New Vehicles	-0.6%	0.2%	0.2%	-0.4%	-1.0%	-1.3%
Medical Care	0.2%	0.1%	0.2%	2.1%	2.0%	3.3%
Services (Excluding Energy Services)	0.2%	0.3%	0.4%	3.8%	3.4%	3.3%
Real Average Hourly Earnings	0.6%	-0.6%	-0.8%	-3.4%	-2.9%	-2.2%

Source: U.S. Department of Labor

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.