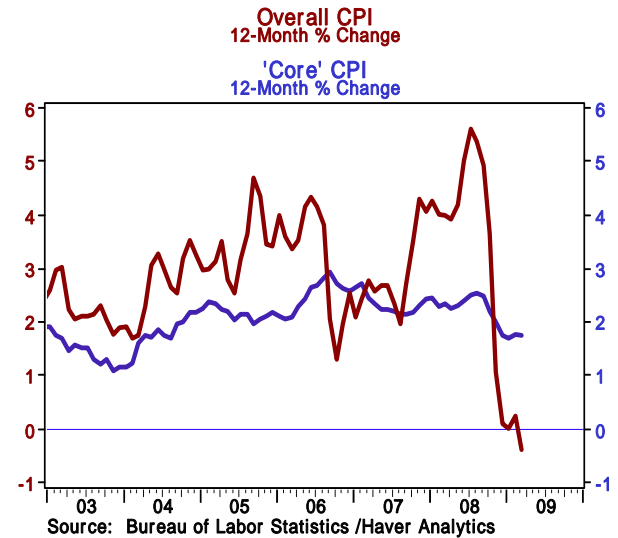


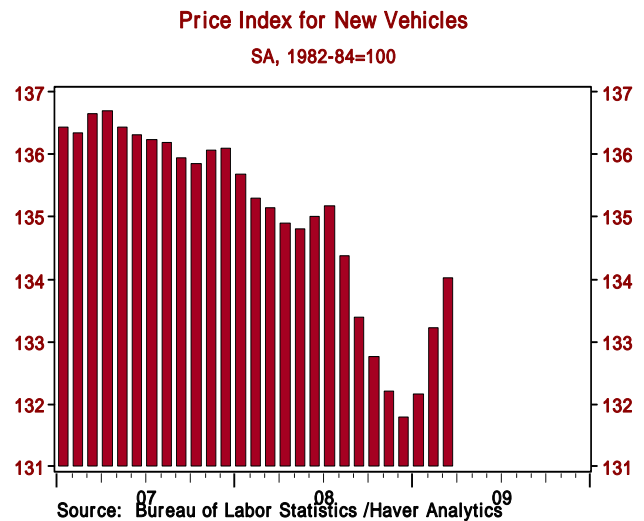
MARCH CPI

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- The Consumer Price Index (CPI) declined 0.1% in March. The consensus expected an increase of 0.1%. The CPI is down 0.4% versus a year ago.
- Energy prices, which fell 3.0%, accounted for all the decline in the overall CPI in March. Food prices also fell 0.1%.
- Excluding food and energy, the “core” CPI was up 0.2% in March. The largest upward contribution to core CPI came from tobacco and smoking products (up 11.0%).
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were up 0.2% in March and are up 4.3% versus a year ago.



Implications: For the first time since 1955, consumer prices are lower than they were the same time the previous year. Although the March CPI decline of 0.1% contributed to this trend, it is mostly due to the steep price declines late last year and is completely attributable to energy. Excluding energy, the CPI is up 2.2% versus a year ago. We expect year-to-year comparisons (May 2009 versus May 2008, for example) for the overall CPI to remain negative into the fall. However, focusing on that comparison is misleading when the rapid month-to-month declines in prices in late 2008 become more distant with each passing month. The CPI is up at a 2.2% annual rate in the first three months of 2009 and we expect consumer prices to trend upward from here. Note that new car prices, which fell steeply in late 2008, are up at a 7% annual rate in the first three months of 2009, the fastest increase for auto prices since 1991. This signals monetary velocity has started to pick up and demand is reviving. Meanwhile, real (inflation-adjusted) average hourly earnings are up 4.3% in the past year, helping support consumer demand even as job losses continue.



CPI - U <i>All Data Seasonally Adjusted</i>	Mar-09	Feb-09	Jan-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-0.1%	0.4%	0.3%	2.2%	-5.4%	-0.4%
Ex Food & Energy	0.2%	0.2%	0.2%	2.2%	1.2%	1.8%
Ex Energy	0.1%	0.1%	0.2%	1.7%	1.1%	2.2%
Energy	-3.0%	3.3%	1.7%	7.9%	-49.9%	-23.0%
Food and Beverages	-0.1%	-0.1%	0.1%	-0.7%	1.0%	4.3%
Housing	-0.1%	0.0%	0.0%	-0.5%	-0.4%	1.4%
Owners Equivalent Rent	0.2%	0.1%	0.3%	2.5%	2.2%	2.1%
New Vehicles	0.6%	0.8%	0.3%	7.0%	1.0%	-0.8%
Medical Care	0.2%	0.3%	0.4%	4.0%	3.3%	2.8%
Services (Excluding Energy Services)	0.1%	0.1%	0.2%	1.5%	1.4%	2.3%
Real Average Hourly Earnings	0.2%	-0.2%	-0.1%	-0.5%	10.7%	4.3%

Source: U.S. Department of Labor

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