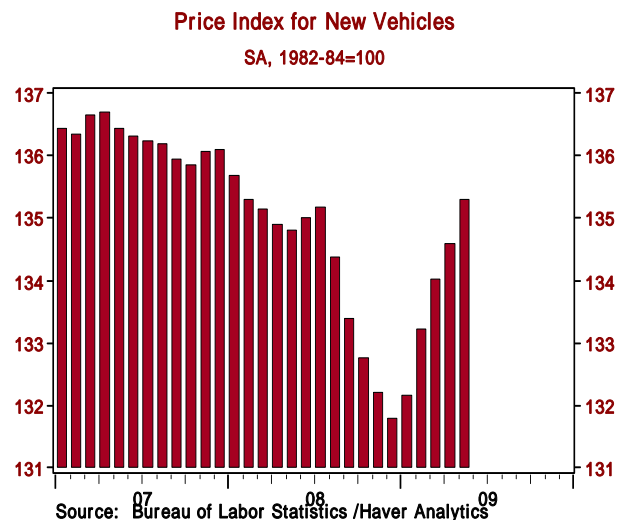
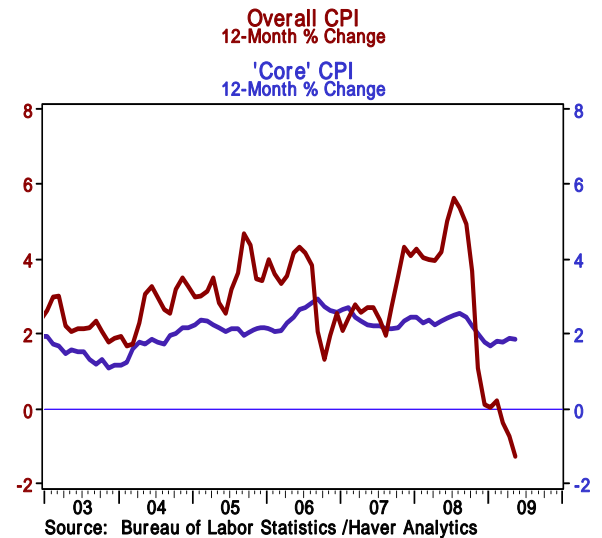


# MAY CPI

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- The Consumer Price Index (CPI) increased 0.1% in May versus a consensus expected gain of 0.3%. The CPI is down 1.3% versus a year ago.
- Energy prices increased 0.2% in May, with a 3.1% rise in auto fuel costs largely offset by a 1.8% decline in household energy costs (oil, natural gas and electricity). Food prices fell 0.2%.
- Excluding food and energy, the “core” CPI was up 0.1% in May (0.145% unrounded). The largest contributions to the core CPI came from rents and autos (new and used).
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were unchanged in May but are up 4.6% versus a year ago.

**Implications:** Today’s report on consumer prices, like yesterday’s report on producer prices, shows that deflation is no longer a threat but an inflation problem has yet to materialize. Some analysts will focus on the fact that consumer prices are down 1.3% versus a year ago, the largest drop since 1950. But the deflation versus a year ago is due to a huge velocity-induced drop in prices late last year, when the economy (and many prices) fell off the edge of a cliff. With monetary velocity now picking up, prices have started to move upward, although not yet across the board. However, given increases in commodity prices, more rapid price increases are likely in the months ahead. “Core” prices, which exclude food and energy, are already showing some movement upward in the underlying trend, up at a 2.3% annual rate in the past three months versus a 1.5% rate in the three months before that, and a 0.6% rate in late 2008. Meanwhile, in the labor market, real (inflation-adjusted) average hourly earnings are up 4.6% in the past year, helping support consumer demand even as job losses continue.



| CPI - U<br><i>All Data Seasonally Adjusted</i> | May-09       | Apr-09 | Mar-09 | 3-mo % Ch.<br>annualized | 6-mo % Ch.<br>annualized | Yr to Yr<br>% Change |
|--|--------------|--------|--------|--------------------------|--------------------------|----------------------|
| <b>Consumer Price Index</b>                    | <b>0.1%</b>  | 0.0%   | -0.1%  | -0.2%                    | -0.4%                    | -1.3%                |
| <i>Ex Food &amp; Energy</i>                    | <b>0.1%</b>  | 0.3%   | 0.2%   | 2.3%                     | 1.9%                     | 1.8%                 |
| <i>Ex Energy</i>                               | <b>0.1%</b>  | 0.2%   | 0.1%   | 1.6%                     | 1.4%                     | 2.0%                 |
| <b>Energy</b>                                  | <b>0.2%</b>  | -2.4%  | -3.0%  | -18.9%                   | -18.1%                   | -27.3%               |
| <i>Food and Beverages</i>                      | <b>-0.2%</b> | -0.2%  | -0.1%  | -2.0%                    | -1.0%                    | 2.7%                 |
| <i>Housing</i>                                 | <b>-0.1%</b> | -0.1%  | -0.1%  | -1.0%                    | -0.5%                    | 0.5%                 |
| <i>Owners Equivalent Rent</i>                  | <b>0.1%</b>  | 0.1%   | 0.2%   | 2.1%                     | 2.0%                     | 2.1%                 |
| <b>New Vehicles</b>                            | <b>0.5%</b>  | 0.4%   | 0.6%   | 6.4%                     | 4.7%                     | 0.4%                 |
| <i>Medical Care</i>                            | <b>0.3%</b>  | 0.4%   | 0.2%   | 3.5%                     | 3.9%                     | 3.2%                 |
| <i>Services (Excluding Energy Services)</i>    | <b>0.1%</b>  | 0.2%   | 0.1%   | 1.5%                     | 1.5%                     | 2.1%                 |
| <b>Real Average Hourly Earnings</b>            | <b>0.0%</b>  | 0.1%   | 0.3%   | 1.9%                     | 2.6%                     | 4.6%                 |

Source: U.S. Department of Labor

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