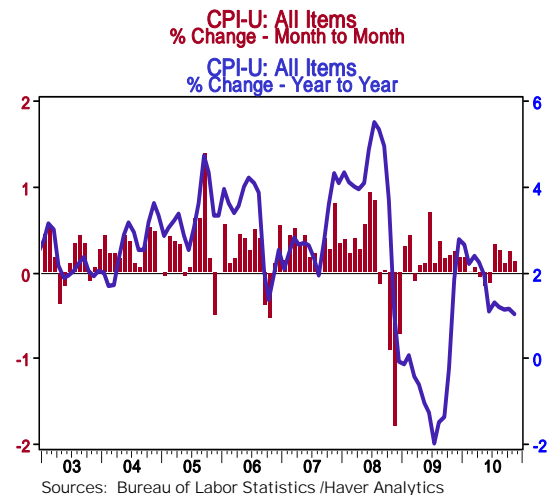


NOVEMBER CPI

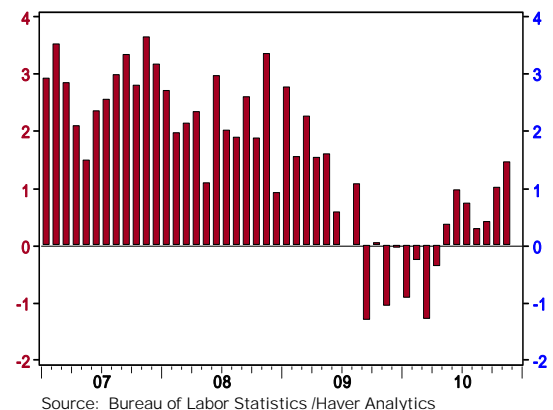
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) increased 0.1% in November, slightly below the consensus expected gain of 0.2%. The CPI is up 1.1% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was also up 0.1% in November and is up 1.3% in the past year.
- No single component of today’s report had a major influence on overall consumer prices in November. Energy and food prices were each up 0.2%. Excluding food and energy, the “core” CPI increased 0.1%, matching consensus expectations. Core prices are up 0.7% versus last year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – fell 0.1% in November but are up 0.6% in the past year. Due to an increase in work hours, real *weekly* earnings are up 1.7% in the past year.



Implications: Although prices have been escalating at the producer level, consumer price inflation remains quiescent. However, given recent increases in commodity prices as well as easy monetary policy, we don’t think such low consumer inflation will persist into 2011. Although consumer prices are up only 1.1% from a year ago, they are up at a 1.8% annual rate in the past six months. Meanwhile, oil prices in December appear ready to average their highest level for any month since the collapse of Lehman Brothers in September 2008. In addition, one of the factors that has held inflation down in the past year is now heading back up. Owners’ equivalent rent (OER), which is the government’s estimate of what homeowners would pay if they rented their own homes, mostly fell in late 2009 and early 2010 but is now up 0.2% versus a year ago, up at a 1% annual rate in the past three months and up at a 1.4% annual rate in November. This is important because OER accounts for about 25% of all the goods and services counted for the CPI.

CPI-U: Owners' Equivalent Rent
% Change - Annual Rate



| CPI - U <i>All Data Seasonally Adjusted</i> | Nov-10 | Oct-10 | Sep-10 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|--|--------------|--------|--------|--------------------------|--------------------------|----------------------|
| Consumer Price Index | 0.1% | 0.2% | 0.1% | 1.8% | 1.8% | 1.1% |
| Ex Food & Energy | 0.1% | 0.0% | 0.0% | 0.4% | 0.9% | 0.7% |
| Ex Energy | 0.1% | 0.0% | 0.0% | 0.7% | 0.9% | 0.9% |
| Energy | 0.2% | 2.6% | 0.7% | 14.8% | 11.1% | 3.9% |
| Food and Beverages | 0.2% | 0.1% | 0.3% | 2.3% | 1.3% | 1.5% |
| Housing | 0.0% | 0.1% | -0.1% | 0.3% | 0.2% | 0.0% |
| Owners Equivalent Rent | 0.1% | 0.1% | 0.0% | 1.0% | 0.8% | 0.2% |
| New Vehicles | -0.4% | -0.2% | 0.1% | -1.7% | 0.1% | -0.4% |
| Medical Care | 0.1% | 0.1% | 0.6% | 3.6% | 2.7% | 3.2% |
| Services (Excluding Energy Services) | 0.2% | 0.1% | 0.1% | 1.4% | 1.2% | 1.1% |
| Real Average Hourly Earnings | -0.1% | 0.0% | 0.1% | 0.0% | 0.0% | 0.6% |

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.