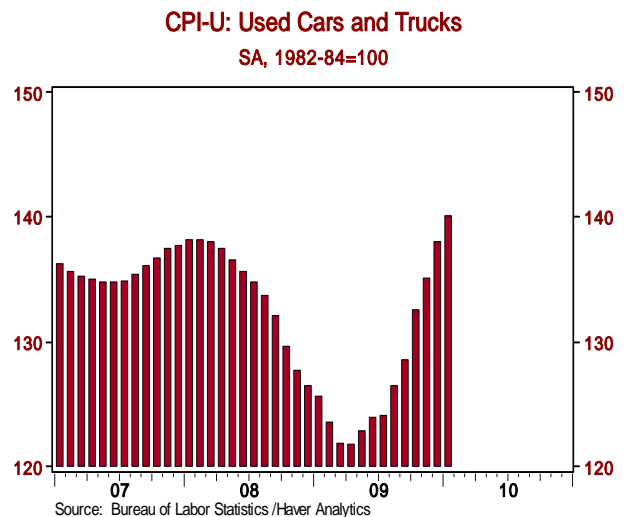
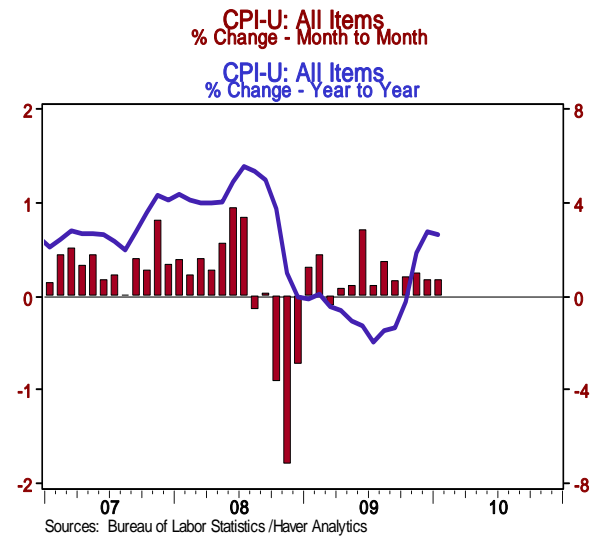


JANUARY CPI

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

- The Consumer Price Index (CPI) was up 0.2% in January, slightly below consensus expectations. The CPI is up 2.6% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what a homeowner would charge himself for rent) was 0.2% in January (0.243% unrounded), is 3.4% in the past year.
- All of the increase in the overall CPI in January could be attributed to energy, which increased 2.8%. Food prices rose 0.2%. Excluding food and energy, the “core” CPI was down 0.1% in January but is up 1.6% versus last year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were down 0.1% in January and are down 0.9% versus a year ago.

Implications: Unlike producer prices, consumer prices did not spike upward in January. Instead they rose a tepid 0.2% while prices excluding food and energy fell 0.1%. However, we believe the underlying trend in inflation is still upward. In the past twelve months, the year-ago comparison for inflation has gone from 0.3% to 2.6%. While some analysts dwell on “core” inflation, which excludes food and energy and is up only 1.6% in the past year, we think “cash” inflation better gauges the pain consumers are feeling. Cash inflation counts everything, *including food and energy*, but takes out something called “owners’ equivalent rent” or OER – the government’s estimate of what homeowners would pay if they rented their own homes. Remember, OER does not reflect an actual transaction; if OER goes up no one has to pay anyone else any more money. Excluding OER, consumer prices increased 0.243% in January and are up 3.4% versus a year ago. In other recent news, the Philadelphia Fed Index, which measures manufacturing in that area, increased to 17.6 in February from 15.2 in January. The index for new orders was the highest in five years; the index for shipments was the highest in three years; the index for employment increased in February and was in positive territory for the third straight month. Sooner than it now thinks, the Federal Reserve will have to turn from raising the discount rate to lifting the federal funds rate.



CPI - U <i>All Data Seasonally Adjusted</i>	Jan-10	Dec-09	Nov-09	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.2%	0.2%	0.2%	2.3%	2.6%	2.6%
Ex Food & Energy	-0.1%	0.1%	0.0%	0.0%	0.8%	1.6%
Ex Energy	-0.1%	0.1%	0.0%	0.3%	0.9%	1.2%
Energy	2.8%	0.8%	2.2%	25.6%	23.2%	19.1%
Food and Beverages	0.2%	0.1%	0.1%	1.8%	0.9%	-0.2%
Housing	-0.3%	0.0%	0.0%	-1.4%	-0.5%	-0.5%
Owners Equivalent Rent	-0.1%	0.0%	-0.1%	-0.7%	-0.4%	0.4%
New Vehicles	-0.5%	-0.2%	0.5%	-1.0%	0.9%	4.1%
Medical Care	0.5%	0.1%	0.3%	3.8%	3.7%	3.5%
Services (Excluding Energy Services)	-0.2%	0.1%	0.0%	-0.6%	0.5%	1.0%
Real Average Hourly Earnings	-0.1%	0.0%	-0.1%	-0.9%	-0.7%	-0.9%

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.