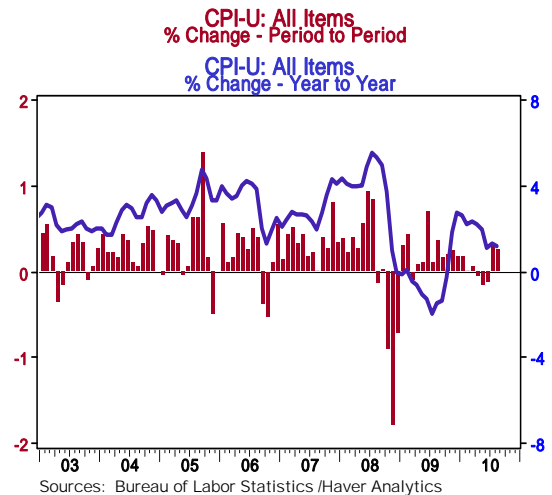


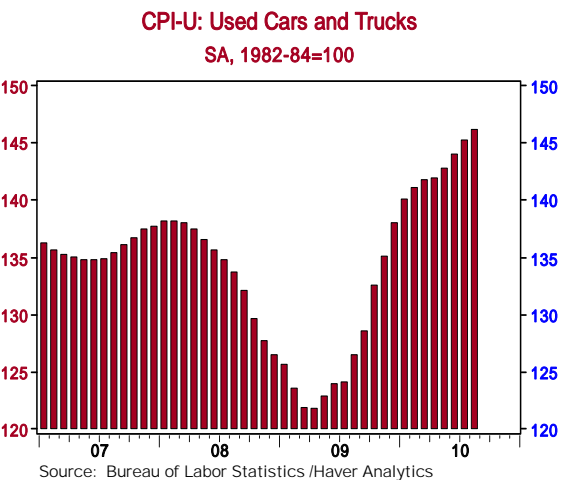
AUGUST CPI

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- The Consumer Price Index (CPI) increased 0.3% in August, matching consensus expectations. The CPI is up 1.1% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what a homeowner would charge himself for rent) was up 0.3% in August and is up 1.7% in the past year.
- Most of the increase in the CPI in August can be attributed to energy prices, which increased 2.3%. Food prices were up 0.2%. Excluding food and energy, the “core” CPI was unchanged in August, below the 0.1% increase the consensus expected. Core prices are up 1.0% versus last year.
- Real average hourly earnings – the cash earnings of production workers, adjusted for inflation – were unchanged in August but are up at a 1.2% annual rate in the past six months. Due to an increase in work hours, real weekly earnings are up at a 2.9% annual rate in the past six months.



Implications: No signs of deflation in today’s report on consumer prices. For the second month in a row, consumer prices increased 0.3%, matching consensus expectations. And, like last month, most of the gain was due to higher energy prices. “Core” prices, which exclude food and energy, were unchanged in August. Despite the more rapid overall inflation of the last two months, consumer prices are up only 1.1% in the past year while core prices are up only 1%. So, although it is impossible to make the case that we are suffering deflation, it is possible to argue that inflation has not yet become a problem. However, the linkage between monetary policy and inflation is a long one, taking at least a year, possibly two. It was not until 15 months ago that the US economy emerged from a recession where nominal GDP growth – real GDP growth plus inflation – was negative. So it was only then when the policy of, essentially, zero percent interest rates became loose. In the months ahead, overall consumer prices inflation should rise and those increases will accelerate next year. In other recent news, the Philadelphia Fed index, a measure of manufacturing in that region, came in at -0.7 in September versus -7.7 in August. The consensus had expected a rise to +1.0. Traditionally, manufacturing in the Philadelphia region is more sensitive to home building than manufacturing in other areas around the country.



CPI - U <i>All Data Seasonally Adjusted</i>	Aug-10	Jul-10	Jun-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.3%	0.3%	-0.1%	1.7%	0.5%	1.1%
Ex Food & Energy	0.0%	0.1%	0.2%	1.3%	1.1%	1.0%
Ex Energy	0.1%	0.1%	0.1%	1.2%	1.1%	0.9%
Energy	2.3%	2.6%	-2.9%	7.6%	-5.1%	3.8%
Food and Beverages	0.1%	0.0%	0.0%	0.4%	1.0%	1.0%
Housing	0.0%	0.1%	-0.1%	0.2%	0.1%	-0.4%
Owners Equivalent Rent	0.0%	0.1%	0.1%	0.6%	0.1%	-0.3%
New Vehicles	0.3%	0.1%	0.1%	2.0%	1.3%	2.3%
Medical Care	0.2%	-0.1%	0.3%	1.8%	2.2%	3.2%
Services (Excluding Energy Services)	0.0%	0.1%	0.1%	1.1%	1.3%	0.7%
Real Average Weekly Earnings	0.0%	-0.1%	0.2%	0.4%	1.2%	0.5%

Source: U.S. Department of Labor

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