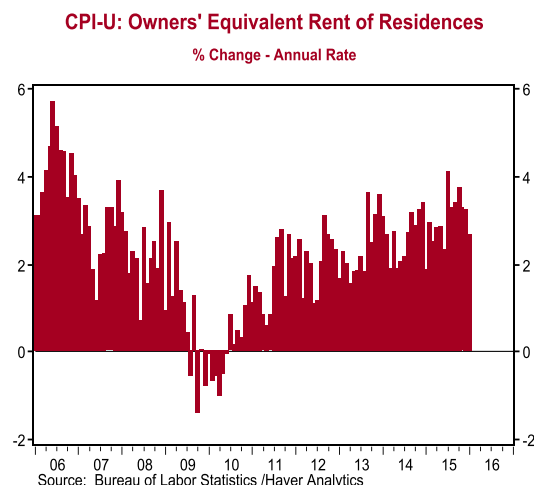
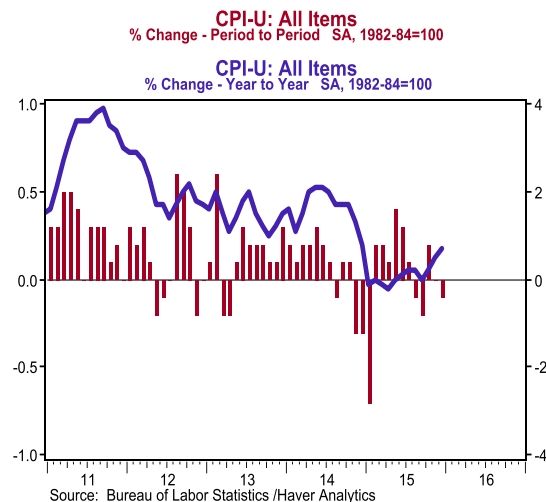


December CPI

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- The Consumer Price Index (CPI) declined 0.1% in December, coming in below the consensus expectation of no change. The CPI is up 0.7% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) declined 0.2% in December, and is down 0.1% in the past year.
- Energy prices declined 2.4% in December, while food prices fell 0.2%. The “core” CPI, which excludes food and energy, increased 0.1% in December, below the consensus expected 0.2% rise. Core prices are up 2.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.1% in December, and are up 1.8% in the past year. Real *weekly* earnings are up 1.6% in the past year.

Implications: Consumer prices surprised to the downside in December. As a result, consumer prices rose a mere 0.7% in 2015, the smallest increase in any calendar year since 2008 and the second smallest gain going back to the 1960s. Energy was the key factor in December as well as 2015 as a whole. Energy prices fell 2.4% in December and 12.6% in 2015. Taking out just the energy component however, consumer prices rose 0.1% in December and 1.9% in 2015. “Core” prices, which exclude both the volatile food and energy components, increased 0.1% in December and are up 2.1% in the past year. Core inflation has been running consistently around the Fed’s 2% target over the past three-, six-, and twelve-month periods. This suggests that as soon as energy prices stop falling, which should be very soon, overall inflation will move toward the Fed’s target more quickly than most anticipate. Owners’ equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in December, is up 3.1% in the past year, and will be a key source of higher inflation in the year ahead. The good news in today’s report was that workers’ earnings keep stretching further. “Real” (inflation-adjusted) average hourly earnings rose 0.1% in December, and are up 1.8% in the past year. This, combined with more jobs, will help boost consumer spending in the year ahead. So despite volatility in the financial markets, calls for the Fed to hold off on rate hikes (or, from the super doves, calls for easing) are totally unjustified. The Fed has a dual mandate, price stability and maximum employment. Unemployment is at 5%, with more than 200,000 jobs created per month in 2015, and inflation beyond the pump is hovering at 2%. This is why we think the Fed should, and will, stay the course with four 25 basis point rate hikes in 2016, starting at the March meeting.



CPI - U <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Dec-15	Nov-15	Oct-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	-0.1%	0.0%	0.2%	0.5%	0.1%	0.7%
Ex Food & Energy	0.1%	0.2%	0.2%	2.1%	1.9%	2.1%
Ex Energy	0.1%	0.1%	0.2%	1.6%	1.8%	1.9%
Energy	-2.4%	-1.3%	0.3%	-12.7%	-18.4%	-12.6%
Food and Beverages	-0.2%	-0.1%	0.2%	-0.7%	1.2%	0.8%
Housing	0.1%	0.2%	0.2%	1.9%	2.2%	2.1%
Owners Equivalent Rent	0.2%	0.2%	0.2%	2.7%	3.0%	3.1%
New Vehicles	-0.1%	0.1%	-0.2%	-0.8%	-1.0%	0.2%
Medical Care	0.1%	0.4%	0.7%	4.7%	3.0%	2.6%
Services (Excluding Energy Services)	0.2%	0.3%	0.3%	3.3%	2.9%	2.9%
Real Average Hourly Earnings	0.1%	0.1%	0.2%	1.5%	2.3%	1.8%

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.