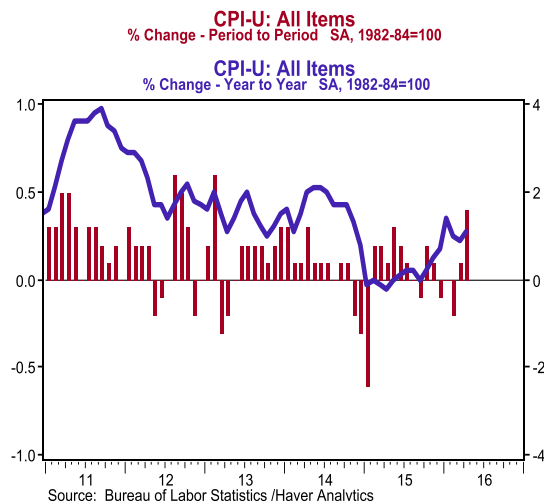


April CPI

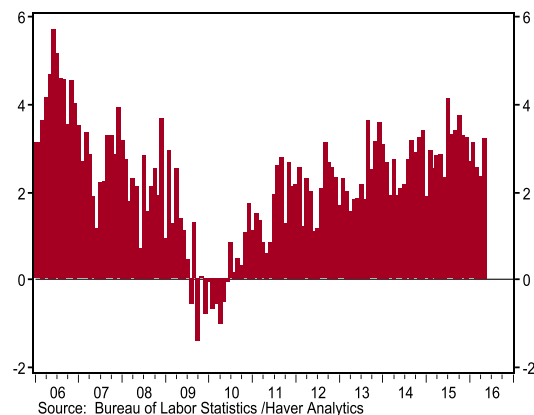
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- The Consumer Price Index (CPI) increased 0.4% in April, coming in above the consensus expected rise of 0.3%. The CPI is up 1.1% from a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) rose 0.4% in April and is up 0.6% in the past year.
- Energy prices rose 3.4% in April, while food prices increased 0.2%. The “core” CPI, which excludes food and energy, increased 0.2% in April, matching consensus expectations. Core prices are up 2.1% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – declined 0.1% in April but are up 1.3% in the past year. Real *weekly* earnings are also up 1.3% in the past year.

Implications: If the Fed is truly “data dependent,” a June rate hike is on the table. The consumer price index rose 0.4% in April, led by rising energy costs. However, the increase in prices was broad-based, not just confined to energy. “Core” consumer prices, which exclude the volatile food and energy components, rose 0.2% in April and show annualized readings above 2% over the past three, six, and twelve-month periods. This consistent pace of “core” inflation above 2% – paired with continued employment gains – means a rate hike would certainly be justified in June. The increase in the core CPI in April was led by housing rents and medical care. Owners’ equivalent rent, which makes up about 1/4 of the CPI, rose 0.3% in April, is up 3.1% in the past year, and will be a key source of higher inflation in the year ahead. Energy prices rose 3.4% in April, as prices for gasoline and fuel oil more than offset declining electricity costs. And given the continued rise in oil prices through the first half of May, the trend in higher energy costs looks likely to continue into next month’s report. This is a big change from recent years, where energy prices are down. Excluding energy, consumer prices are up 2.0% in the past year. In other words, as energy prices rise, the headline index will follow at a faster pace than many are expecting. Food prices rose 0.2% in April as dairy prices rebounded from March. One negative piece of news in today’s report is that the big CPI jump pushed “real” (inflation-adjusted) average hourly earnings down 0.1%. But this is the first decline in nine months and we still think wages will rise faster than prices in the months ahead as employment keeps growing at a healthy clip. Taken as a whole, and paired with the continued health in the labor market, today’s report is a green light for the Fed. The only issue is whether the Fed will have the guts to move forward.



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



CPI - U	Apr-16	Mar-16	Feb-16	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Consumer Price Index	0.4%	0.1%	-0.2%	1.3%	0.8%	1.1%
Ex Food & Energy	0.2%	0.1%	0.3%	2.2%	2.4%	2.1%
Ex Energy	0.2%	0.0%	0.3%	2.0%	2.0%	2.0%
Energy	3.4%	0.9%	-6.0%	-7.0%	-13.3%	-8.9%
Food and Beverages	0.2%	-0.2%	0.2%	0.6%	-0.1%	1.0%
Housing	0.2%	0.1%	0.2%	2.2%	2.0%	2.1%
Owners Equivalent Rent	0.3%	0.2%	0.3%	3.1%	3.0%	3.1%
New Vehicles	-0.3%	0.0%	0.2%	-0.6%	0.3%	0.0%
Medical Care	0.3%	0.1%	0.5%	3.8%	3.7%	3.0%
Services (Excluding Energy Services)	0.3%	0.2%	0.3%	3.0%	3.1%	3.0%
Real Average Hourly Earnings	-0.1%	0.2%	0.2%	1.1%	1.9%	1.3%

Source: U.S. Department of Labor

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