First Trust DATAWATCH

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March CPI

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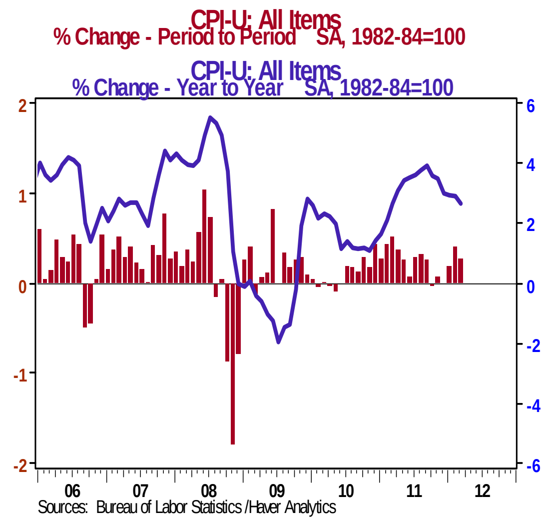
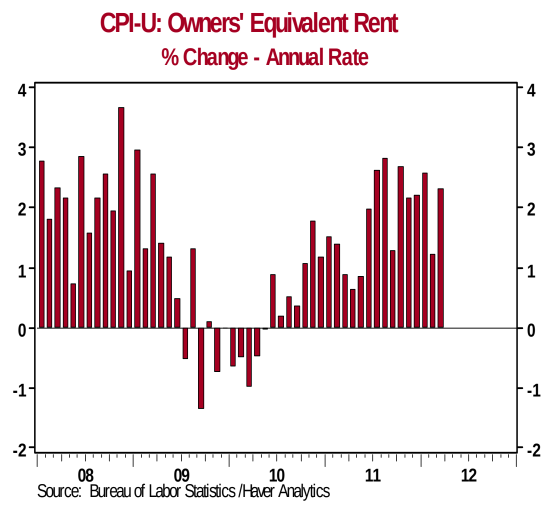
- The Consumer Price Index (CPI) increased 0.3% in March exactly as the consensus expected. The CPI is up 2.7% versus a year ago.
- “Cash” inflation (which excludes the government’s estimate of what homeowners would charge themselves for rent) was also up 0.3% in March, and is up 2.9% in the past year.
- The increase in the CPI was led by a 0.9% gain in energy. But gains were widespread as all other major categories of prices rose as well. The “core” CPI, which excludes food and energy, was up 0.2%, matching consensus expectations, and is up 2.3% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were down 0.1% in March and are down 0.6% in the past year. Real *weekly* earnings are unchanged in the past year.





Implications: Consumer inflation came in exactly as the consensus expected in March, up 0.3% overall and 0.2% if you exclude food and energy. Energy prices led the way as prices at the pump continued to move higher. In the past three months, energy prices have risen at an 18.3% annual rate while overall consumer prices are up at a 3.7% annual rate. However, prices for both energy and the overall CPI were up *even faster* in the same three months in 2011. As a result, year-ago price comparisons have actually been decelerating. Back in October, consumer prices were up 3.6% from a year ago; now prices are up 2.7% from a year ago. This deceleration may continue for another month or so, which means prices will still be rising, but not as quickly as they were the same time a year ago. However, do not expect the respite from higher inflation to last. “Core” inflation, which excludes food and energy, has continued to trend upward. Back in October, core prices were up 2.1% from a year ago; now they’re up 2.3%, which is above the Federal Reserve’s target of 2%. Meanwhile, monetary policy is very loose and housing costs (which are measured by rents, not asset values) are rising. Owners’ equivalent rent was up 0.2% in March and is up 2% versus a year ago. The ongoing shift from home ownership toward rental occupancy should boost this inflation measure even more in the year ahead. With loose monetary policy and housing costs accelerating, it’s hard to see core inflation getting back down to the Fed’s 2% target anytime soon. On the earnings front, “real” (inflation-adjusted) wages per hour were down 0.1% in March. Although these earnings are down 0.6% from a year ago, the number of hours worked is up 2.5%, giving consumers more purchasing power. No justification here for a third round of quantitative easing.

CPI - U *All Data Seasonally Adjusted*	Mar-12	Feb-12	Jan-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.3%**	0.4%	0.2%	3.7%	2.0%	2.7%
Ex Food & Energy	**0.2%**	0.1%	0.2%	2.2%	2.1%	2.3%
Ex Energy	**0.2%**	0.1%	0.2%	2.1%	2.0%	2.4%
Energy	**0.9%**	3.2%	0.2%	18.3%	1.0%	4.6%
Food and Beverages	**0.1%**	0.1%	0.2%	1.6%	1.8%	3.2%
Housing	**0.1%**	0.1%	0.1%	1.4%	1.6%	1.7%
Owners Equivalent Rent	**0.2%**	0.1%	0.2%	2.1%	2.2%	2.0%
New Vehicles	**0.2%**	0.6%	0.0%	3.2%	0.5%	2.5%
Medical Care	**0.3%**	0.2%	0.3%	3.3%	3.9%	3.5%
Services (Excluding Energy Services)	**0.2%**	0.1%	0.2%	2.3%	2.6%	2.3%
Real Average Hourly Earnings	**-0.1%**	-0.1%	-0.1%	-1.2%	0.0%	-0.6%

Source: U.S. Department of Labor

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