First Trust DATAWATCH

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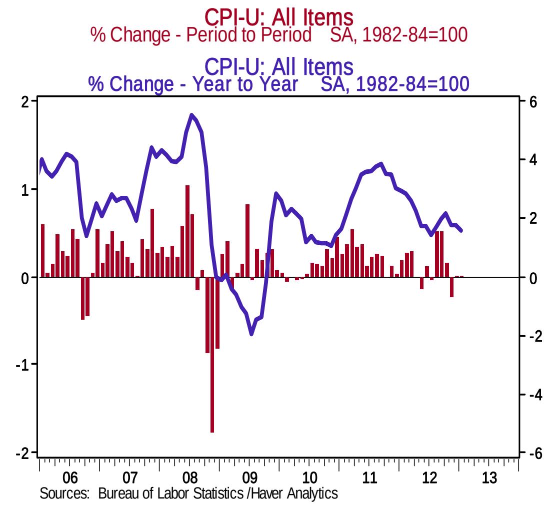
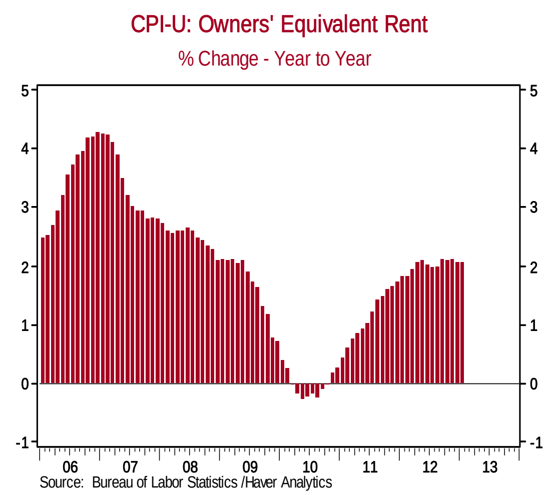
January CPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- The Consumer Price Index (CPI) was unchanged in January, coming in below the consensus expected gain of 0.1%. The CPI is up 1.6% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was also unchanged in January but is up 1.4% in the past year.
- The unchanged CPI in January was the result of a 1.7% decline in energy prices offsetting increases in most other major categories. Food prices were unchanged. The "core" CPI, which excludes food and energy, was up 0.3% in January and is up 1.9% versus a year ago. The consensus expected a gain of 0.2% in January.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – were up 0.2% in January and are up 0.6% in the past year. Real *weekly* earnings are up 0.3% in the past year.





Implications: For the time being, overall consumer price inflation remains quiet. Consumer prices were unchanged in January and are up only 1.6% from a year ago. Once again, falling energy prices offset gains in most other major categories. That's been the recent theme, with the overall CPI down at a 0.7% annual rate in the past three months, all due to energy. The reason that's important is that energy prices have spiked higher in February, so we are likely to see overall prices move higher as well when that data arrives in a month. "Core" prices, which exclude food and energy, were up 0.3% in January, coming in above consensus expectations and the largest monthly increase since May 2011. Core prices are up 1.9% from a year ago. Neither overall or core price gains in the past year sets off alarm bells. Instead, they suggest the Federal Reserve's preferred measure of inflation, the PCE deflator (which usually runs a ¼ point below the CPI) remains comfortably below the Fed's target of 2%. We don't expect this to last. However, for the Fed, the key measure of inflation is its *own forecast of future inflation*. So even if inflation goes to roughly 3% within the next year, as long as the Fed projects the rise to be temporary it will not react by raising short-term interest rates. The Fed is more focused on the labor market and, we believe, is willing to let inflation exceed its long-term target of 2% for a prolonged period of time in order to get the unemployment rate down. The best news in today's report was that "real" (inflation-adjusted) average hourly earnings rose 0.2% in January. In the past three months they are up at a 4.4% annual rate. In other news this morning, new claims for unemployment insurance increased 20,000 last week to 362,000, very close to the four-week moving average of 361,000. Continuing claims for regular state benefits increased 11,000 to 3.15 million. These figures are consistent with continued moderate payroll growth in February.

CPI - U *All Data Seasonally Adjusted*	Jan-13	Dec-12	Nov-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	0.0%	-0.2%	-0.7%	2.1%	1.6%
Ex Food & Energy	**0.3%**	0.1%	0.1%	1.9%	1.8%	1.9%
Ex Energy	**0.2%**	0.1%	0.1%	1.9%	1.8%	1.9%
Energy	**-1.7%**	-0.8%	-3.4%	-21.5%	5.1%	-1.0%
Food and Beverages	**0.0%**	0.2%	0.2%	1.7%	1.7%	1.6%
Housing	**0.2%**	0.1%	0.2%	2.3%	2.4%	1.8%
Owners Equivalent Rent	**0.2%**	0.1%	0.2%	1.9%	2.2%	2.1%
New Vehicles	**0.1%**	0.2%	0.3%	2.4%	1.8%	1.7%
Medical Care	**0.1%**	0.2%	0.1%	1.8%	2.0%	3.1%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.2%	2.7%	2.6%	2.5%
Real Average Hourly Earnings	**0.2%**	0.3%	0.6%	4.4%	0.0%	0.6%

Source: U.S. Department of Labor