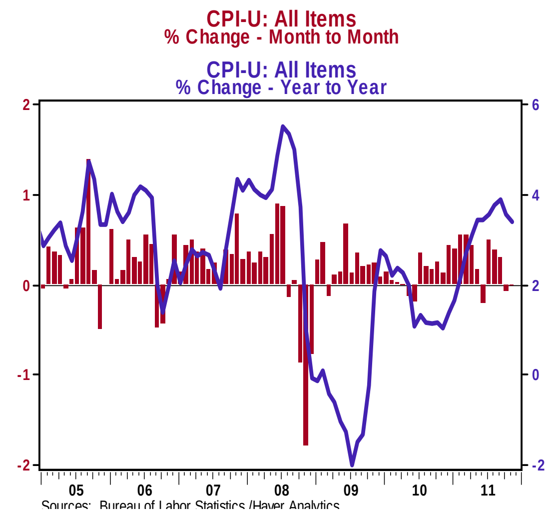
First Trust DATAWATCH

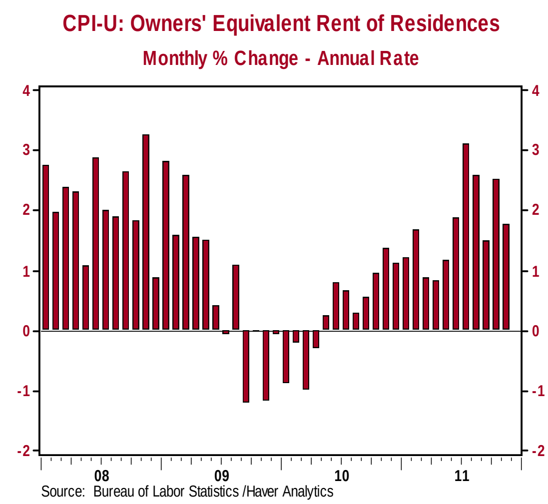
December 16, 2011 • 630.517.7756 • www.ftportfolios.com

November CPI

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

- The Consumer Price Index (CPI) was unchanged in November. The consensus expected an increase of 0.1%. The CPI is up 3.4% versus a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) slipped 0.1% in November, but is up 4.0% in the past year.
- The lack of increase in the CPI was due to a 1.6% drop in energy prices. Food prices were up 0.1%. The "core" CPI, which excludes food and energy, was up 0.2%, higher than the consensus expected increase of 0.1%. Core prices are up 2.2% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – fell 0.1% in November and are down 1.5% in the past year. Real *weekly* earnings are down 1.2% in the past year.





Implications: Energy prices have dropped substantially in the past two months. As a result, overall consumer prices dipped slightly in October and were unchanged in November. However, the respite from inflation has been brief and we do not expect it to last. Monetary policy is very loose and the upward trend for inflation will re-start soon. Subdued prices over the past two months are not a justification for the Federal Reserve to pursue another round of quantitative easing. The CPI is still up 3.4% from a year ago. Another measure of inflation we look at is called "cash" inflation, which excludes the government's estimate of what homeowners would pay themselves in rent. This measure is up 4% in the past year and is better at gauging the inflation actually being felt by consumers. "Core" CPI, which excludes food and energy, was up 0.2% in November and is up 2.2% in the past year. This is higher than the Fed's target range, which is supposed to max out at 2%. The Fed has been using modest core inflation to justify loose monetary policy, but that excuse no longer works. Moreover, in the past year, while core prices have grown 2.2%, owners' equivalent rent, which makes up one-third of the core, is up 1.7%. Given the shift from home ownership toward rental occupancy, owners' equivalent rent should accelerate over the next year, putting more upward pressure on the core. On the earnings front, "real" (inflation-adjusted) earnings per hour were down 0.1% in November. However, this comes on the heels of an upwardly revised 0.4% gain in average hourly earnings last month. Although these earnings are down 1.5% from a year ago, the number of hours worked is up 2.1%, giving consumers more purchasing power. In addition, fringe benefits have been growing faster than wages.

CPI - U *All Data Seasonally Adjusted*	Nov-11	Oct-11	Sep-11	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	-0.1%	0.3%	0.8%	1.7%	3.4%
Ex Food & Energy	**0.2%**	0.1%	0.1%	1.5%	2.2%	2.2%
Ex Energy	**0.2%**	0.1%	0.1%	1.6%	2.4%	2.5%
Energy	**-1.6%**	-2.0%	2.0%	-6.4%	-4.4%	12.4%
Food and Beverages	**0.1%**	0.1%	0.4%	2.3%	3.4%	4.4%
Housing	**0.1%**	0.1%	0.2%	1.6%	1.8%	1.9%
Owners Equivalent Rent	**0.1%**	0.2%	0.1%	1.9%	2.2%	1.7%
New Vehicles	**-0.3%**	-0.3%	0.0%	-2.7%	0.0%	3.3%
Medical Care	**0.4%**	0.5%	0.2%	4.4%	3.6%	3.4%
Services (Excluding Energy Services)	**0.2%**	0.2%	0.2%	2.4%	2.3%	2.1%
Real Average Hourly Earnings	**-0.1%**	0.4%	-0.1%	0.8%	-0.4%	-1.5%

Source: U.S. Department of Labor