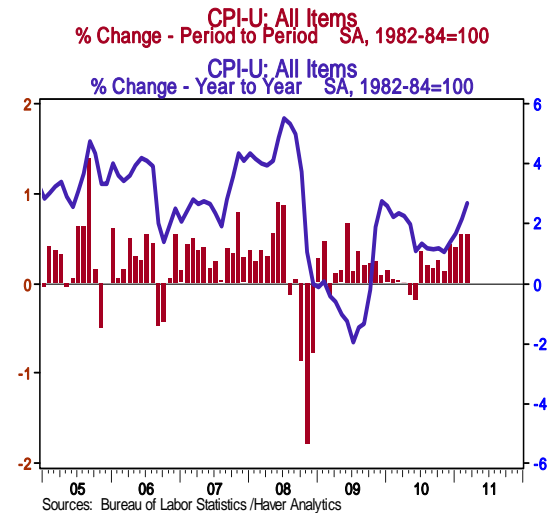


MARCH CPI

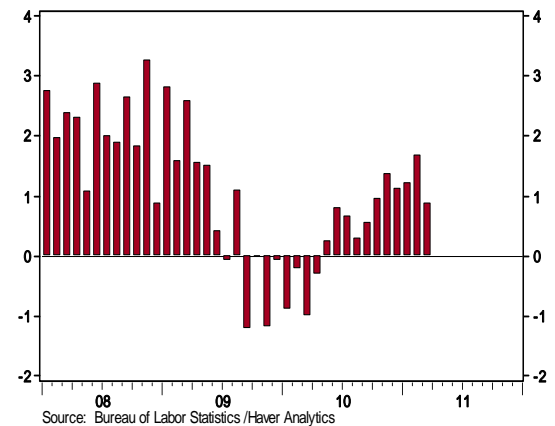
Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Consumer Price Index (CPI) increased 0.5% in March, matching consensus expectations. 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 up 0.7% in March and is up 3.3% in the past year.
- Most of the increase in the CPI in March was due to energy, which rose 3.5%. Food prices were up 0.8%. Excluding food and energy, the “core” CPI increased 0.1%, slightly lower than consensus expectations. Core prices are up 1.2% versus last year.
- Real average hourly earnings – the cash earnings of all employees, adjusted for inflation – fell 0.6% in March and are down 1.0% in the past year. Real *weekly* earnings are down 0.4% in the past year.

Implications: Consumer price inflation continues to accelerate. Although the CPI is up a moderate 2.7% in the past year, with a 0.5% increase in March, it’s up at a 4.7% annual rate in the past six months and an even faster 6.1% rate in the past three months. We like to follow “cash inflation,” which is everything in the CPI (including food and energy) but without owners’ equivalent rent (the government’s estimate of what homeowners would pay if they rented their own homes). Cash inflation increased 0.7% in March and is up at a 7.7% annual rate in the past three months. These increases have been led by energy which is up at a whopping 42% annual rate in the past three months. But “core” CPI is also accelerating. Core prices are up only 1.2% versus a year ago, but up at a 2% annual rate in the past three months. With many homeowners becoming renters, owners’ equivalent rent – which is about one-third of the core CPI – should continue to push higher (see lower chart to right). Along with rising inflation expectations among consumers and investors, accelerating core inflation will make it harder for the Federal Reserve to justify keeping short-term interest rates near zero. Unfortunately, the Fed is likely to maintain its very loose monetary policy through at least year end.



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



CPI - U <i>All Data Seasonally Adjusted</i>	Mar-11	Feb-11	Jan-11	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	0.5%	0.5%	0.4%	6.1%	4.7%	2.7%
<i>Ex Food & Energy</i>	0.1%	0.2%	0.2%	2.0%	1.4%	1.2%
<i>Ex Energy</i>	0.2%	0.3%	0.2%	2.8%	1.9%	1.4%
Energy	3.5%	3.4%	2.1%	42.4%	36.0%	15.5%
Food and Beverages	0.7%	0.5%	0.5%	7.1%	4.3%	2.8%
Housing	0.1%	0.3%	0.1%	1.9%	1.5%	0.8%
Owners Equivalent Rent	0.1%	0.1%	0.1%	1.3%	1.2%	0.8%
New Vehicles	0.7%	1.0%	-0.1%	6.4%	2.3%	1.6%
Medical Care	0.2%	0.4%	0.1%	2.9%	2.6%	2.7%
Services (Excluding Energy Services)	0.2%	0.2%	0.1%	2.1%	1.8%	1.6%
Real Average Hourly Earnings	-0.6%	-0.5%	0.0%	-4.2%	-3.1%	-1.0%

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.