First Trust DATAWATCH

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January CPI

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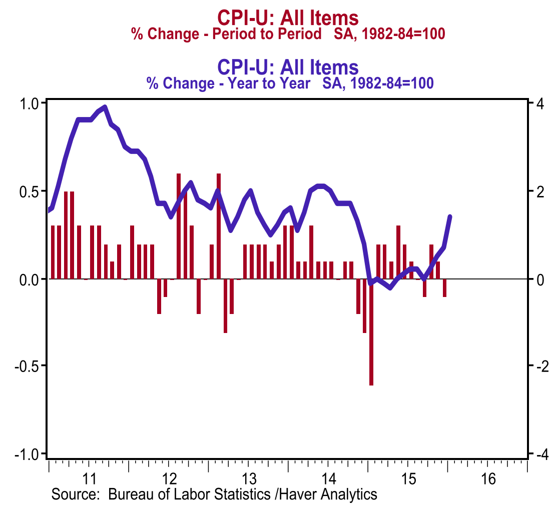
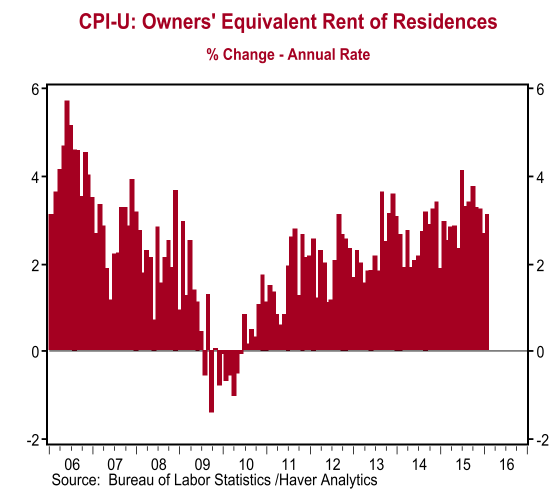
- The Consumer Price Index (CPI) was unchanged in January, coming in above the consensus expected decline of 0.1%. The CPI is up 1.4% from a year ago.
- "Cash" inflation (which excludes the government's estimate of what homeowners would charge themselves for rent) was also unchanged in January, and is up 0.8% in the past year.
- Energy prices declined 2.8% in January, while food prices were unchanged. The "core" CPI, which excludes food and energy, increased 0.3% in January, above the consensus expected 0.2% rise. Core prices are up 2.2% versus a year ago.
- Real average hourly earnings – the cash earnings of all workers, adjusted for inflation – rose 0.4% in January and are up 1.1% in the past year. Real *weekly* earnings are up 1.2% in the past year.





Implications: Today's CPI report shows inflation is not dead. While the headline reading displayed no change in overall consumer prices in January, the details of the report show why the Fed can be confident that inflation is already moving back toward it's 2% target. The key reason consumer prices were unchanged in January was a 4.8% drop in gasoline prices, to the lowest level since March of 2009. Energy prices as whole (gas plus everything else) were down 2.8%. But outside the energy sector, prices rose almost across the board. The "core" CPI, which excludes food and energy, rose 0.3% in January, led by housing and medical care. Owners' equivalent rent, which makes up about ¼ of the CPI, rose 0.2% in January, is up 3.2% in the past year, and will be a key source of higher inflation in the year ahead. The core CPI is up 2.2% in the past twelve months and has been running above 2% annualized over the past three-, six-, and twelve-month periods. Even including food and energy, there are some early signs of rising inflation, with consumer prices up 1.4% in the past year, versus an increase of 0.7% in the twelve months ending in December. As soon as energy prices stop falling, overall inflation will move quickly toward the Fed's 2% target, taking many investors by surprise. In the meantime, workers' earnings keep stretching further. "Real" (inflation-adjusted) average hourly earnings rose 0.4% in January, and are up 1.1% in the past year. This, combined with more jobs, will help boost consumer spending in the year ahead. In other recent economic news, new claims for unemployment insurance declined 7,000 last week to 262,000, the 50th consecutive week under 300,000. Continuing claims rose 30,000 to 2.273 million. It's still early, but plugging these figures into our models suggests February payroll gains of about 225,000. On the manufacturing front, the Philadelphia Fed index, a measure of sentiment in East Coast manufacturing, came in at -2.8 in February versus -3.5 in January, signaling that the rate of contraction in that sector is flattening out.

CPI - U *All Data Seasonally Adjusted Except for Yr to Yr*	Jan-16	Dec-15	Nov-15	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Consumer Price Index	**0.0%**	-0.1%	0.1%	0.3%	0.3%	1.4%
Ex Food & Energy	**0.3%**	0.2%	0.2%	2.5%	2.3%	2.2%
Ex Energy	**0.3%**	0.1%	0.1%	2.0%	2.1%	2.0%
Energy	**-2.8%**	-2.8%	0.3%	-19.2%	-18.8%	-6.5%
Food and Beverages	**0.0%**	-0.2%	-0.1%	-0.8%	0.8%	0.9%
Housing	**0.1%**	0.1%	0.2%	1.8%	2.2%	2.1%
Owners Equivalent Rent	**0.2%**	0.2%	0.2%	2.9%	3.0%	3.2%
New Vehicles	**0.3%**	0.0%	0.0%	1.1%	0.3%	0.6%
Medical Care	**0.5%**	0.1%	0.3%	3.6%	3.5%	3.0%
Services (Excluding Energy Services)	**0.3%**	0.2%	0.3%	3.3%	3.1%	3.0%
Real Average Hourly Earnings	**0.4%**	0.2%	0.1%	2.7%	2.5%	1.1%

Source: U.S. Department of Labor