

Data Watch

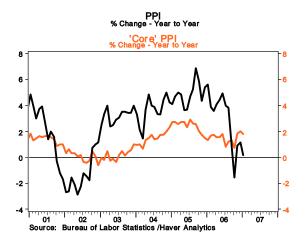
February 16, 2007 • 630.322.7756 • http://www.ftportfolios.com

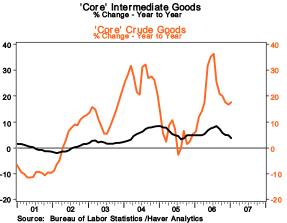
JANUARY PP I

Chief Economist - Brian S. Wesbury Senior Economist - Robert Stein, CFA Economic Research Analyst - Trevor D. Scott

- As the consensus expected, the Producer Price Index (PPI) fell 0.6% in January. The PPI is up only 0.2% versus a year ago but has climbed 8.7% at an annual rate in the past three months.
- The drop in January was entirely due to a 4.6% decline in energy prices. The "core" PPI was up 0.2%, also meeting the consensus forecast, and is up 1.8% versus a year ago.
- Consumer goods prices, excluding energy, increased 0.5% in January and are up 4.1% at an annual rate in the past six months. Capital equipment prices increased 0.2% in January and are up at an annual rate of 3.2% in the past six months..
- "Core" intermediate goods prices were unchanged in January, are down at a 1.4% rate in the past three months, but up 3.8% versus a year ago. "Core" crude prices increased 1.6% in January, are up at a 10.5% rate the past three months, and are up 17.9% versus a year ago.

Implications: We believe investors should look past the low headline PPI number to the underlying data and the "core" measures, particularly those for capital, intermediate and crude goods, which suggest more upward pressure on inflation is already in the pipeline. Excluding volatile energy prices, PPI inflation is 2% for finished goods, 3.9% for intermediate goods and 11.7% for crude goods. This is not an environment in which the Federal Reserve should be complacent about inflation.





for eral -20 03 04 05 06 07 Source: Bureau of Labor Statistics /Haver Analytics				
Nov-06	3-mo % Ch.	6-mo % Ch.	Yr to Yr	
	annualized	annualized	% Change	
1.8%	8.7%	-0.9%	0.2%	
1.1%	6.2%	2.8%	1.8%	
0.1%	11.1%	7.3%	2.7%	
6.0%	14.2%	-17.6%	-6.6%	
2.0%	9.2%	-2.3%	-0.5%	
1.4%	7.0%	3.2%	2.2%	
0.6%	2.0%	-2.8%	1.2%	

0.4%

16.3%

-2.8%

-4.4%

17.9%

3.8%

-8.6%

-8.0%

17.9%

Source: Bureau of Labor Statistics

Producer Price Index

All Data Seasonally Adjusted

Finished Goods

Food

Energy

Enerav

Crude Goods

Enerav

Ex Food and Energy

Consumer Goods

Capital Equipment Intermediate Goods

Ex Food & Energy

Ex Food & Energy

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.

Dec-06

0.9%

0.2%

1.5%

2.2%

1.1%

0.1%

0.5%

0.0%

2.5%

2.8%

0.5%

-0.4%

4.1%

15.5%

0.4%

-1.4%

10.9%

53.6%

10.5%

108.5%

Jan-07

-0.6%

0.2%

1.1%

4.6%

-0.9%

0.2%

-0.7%

0.0%

3.8%

-6.3%

1.6%

16.2%