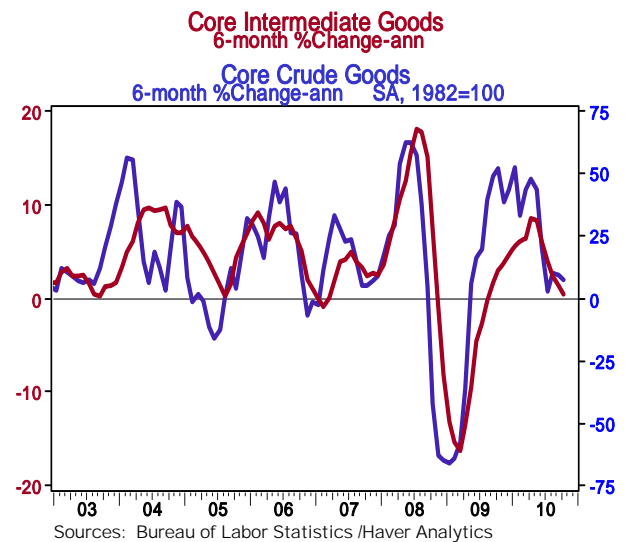
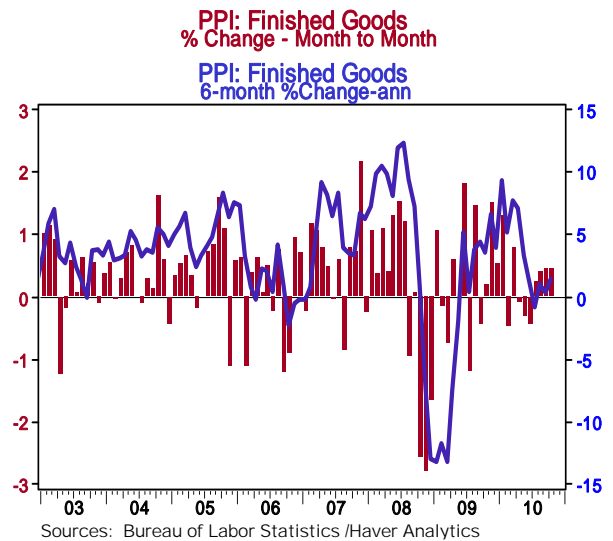


OCTOBER PPI

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

- The Producer Price Index (PPI) increased 0.4% in October, falling short of the consensus expected gain of 0.8%. The PPI is up 4.3% versus a year ago.
- The October rise in the PPI was mostly due to energy, which increased 3.7%. Food prices fell 0.1%. The “core” PPI, which excludes food and energy, fell 0.6%, well short of the consensus expected increase of 0.1%.
- Consumer goods prices rose 0.8% in October and are up 5.6% versus last year. Capital equipment prices fell 0.8% in October and are up 0.5% in the past year.
- Intermediate goods prices increased 1.2% in October and are up 6.3% versus a year ago. Crude prices increased 4.3% in October and are up 17.1% in the past twelve months.

Implications: Due to a large increase in energy, producer prices increased 0.4% in October and are up 4.3% in the past year. However, those claiming deflation is a threat may point to the 0.6% drop in “core” producer prices as vindication. If so, they would be wrong. Instead, they should take the core PPI data with a big grain of salt. This is the fourth time in the past six years that the core PPI has dropped in October. On average, these October declines, have been offset with increases in November. This “creeping seasonality” in the data – where the government has problems predicting normal month-to-month variation in prices – may be due to how the government estimates prices of light trucks, which fell 4.3% in October. Looking at the rest of the report, core inflation was not subdued. Core intermediate prices were up 0.6% and core crude prices were up 2.1%. Overall intermediate prices are up 6.3% in the past year while overall crude prices are up 17.1%. Over time, some of this should filter through to prices for finished goods. Bottom line: the US is not experiencing deflation and the Federal Reserve remains too loose given economic conditions. More inflation will be the inevitable result.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Oct-10	Sep-10	Aug-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.4%	0.4%	0.4%	5.2%	1.5%	4.3%
<i>Ex Food and Energy</i>	-0.6%	0.1%	0.1%	-1.6%	0.6%	1.5%
Food	-0.1%	1.2%	-0.3%	3.6%	-2.3%	3.7%
Energy	3.7%	0.5%	2.2%	28.3%	6.8%	12.9%
Consumer Goods	0.8%	0.5%	0.6%	8.1%	2.0%	5.6%
<i>Capital Equipment</i>	-0.8%	0.1%	0.1%	-2.5%	-0.3%	0.5%
Intermediate Goods	1.2%	0.5%	0.3%	8.4%	2.0%	6.3%
<i>Ex Food & Energy</i>	0.6%	0.2%	0.1%	3.4%	0.4%	4.4%
Energy	3.2%	0.7%	1.3%	23.0%	4.0%	13.2%
Crude Goods	4.3%	-0.5%	2.3%	27.1%	7.0%	17.1%
<i>Ex Food & Energy</i>	2.1%	5.5%	4.1%	58.3%	7.4%	26.0%
Energy	5.4%	-8.8%	0.5%	-13.0%	-5.2%	8.2%

Source: Bureau of Labor Statistics

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.