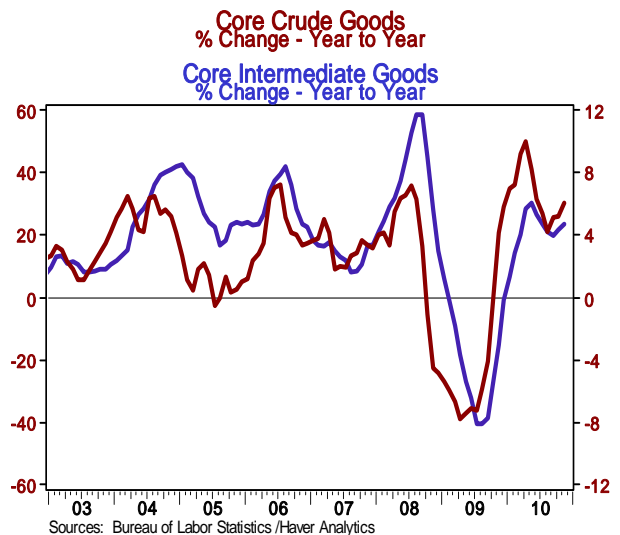


NOVEMBER PPI

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- The Producer Price Index (PPI) increased 0.8% in November, beating the consensus expected gain of 0.6%. Producer prices are up 3.5% versus a year ago.
- The November rise in the PPI was mostly due to energy and food. Energy prices increased 2.1% while food prices rose 1.0%. The “core” PPI, which excludes food and energy, increased 0.3%, beating the consensus expected increase of 0.2%.
- Consumer goods prices rose 1.0% in November and are up 4.7% versus last year. Capital equipment prices were up 0.2% in November and are up 0.3% in the past year.
- Intermediate goods prices increased 1.1% in November and are up 6.3% versus a year ago. Crude prices increased 0.6% in November and are up 13.0% in the past twelve months.

Implications: Overly loose monetary policy from the Federal Reserve isn’t just going to cause more inflation down the road, it’s causing higher inflation today. Anyone still talking about a deflation threat needs to re-examine their economic models. Mostly due to increases in food and energy, producer prices increased 0.8% in November, the largest gain since March. Core prices increased 0.3%, a partial rebound from the 0.6% drop last month. What’s even more troubling is that measures of producer price inflation are more intense deeper in the production process, and that’s the case with both overall prices and core prices. In the past year, prices for intermediate goods are up 6.3% overall and 4.7% core; prices for crude goods are up 13% overall and 30.2% core. Over time, some of these increases should filter through to prices for finished goods. It’s important to note that all these inflation figures are all the result of monetary policy *before* the Fed embarked on its second round of quantitative easing, which implies the potential for even higher readings in the next two years.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Nov-10	Oct-10	Sep-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.8%	0.4%	0.4%	6.9%	3.7%	3.5%
<i>Ex Food and Energy</i>	0.3%	-0.6%	0.1%	-0.7%	0.6%	1.2%
Food	1.0%	-0.1%	1.2%	9.1%	0.8%	4.1%
Energy	2.1%	3.7%	0.5%	27.7%	15.8%	9.5%
Consumer Goods	1.0%	0.8%	0.5%	9.9%	5.3%	4.7%
Capital Equipment	0.2%	-0.8%	0.1%	-2.0%	-0.4%	0.3%
Intermediate Goods	1.1%	1.2%	0.5%	11.9%	4.1%	6.3%
<i>Ex Food & Energy</i>	0.7%	0.6%	0.2%	5.9%	1.3%	4.7%
Energy	2.8%	3.2%	0.7%	30.3%	11.2%	11.3%
Crude Goods	0.6%	4.3%	-0.5%	18.5%	13.9%	13.0%
<i>Ex Food & Energy</i>	3.1%	2.1%	5.5%	52.7%	18.3%	30.2%
Energy	-1.3%	5.4%	-8.8%	-19.0%	1.2%	-2.4%

Source: Bureau of Labor Statistics

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