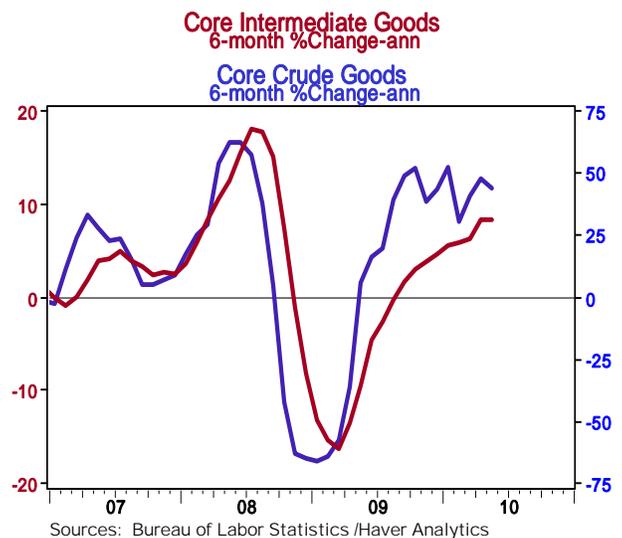
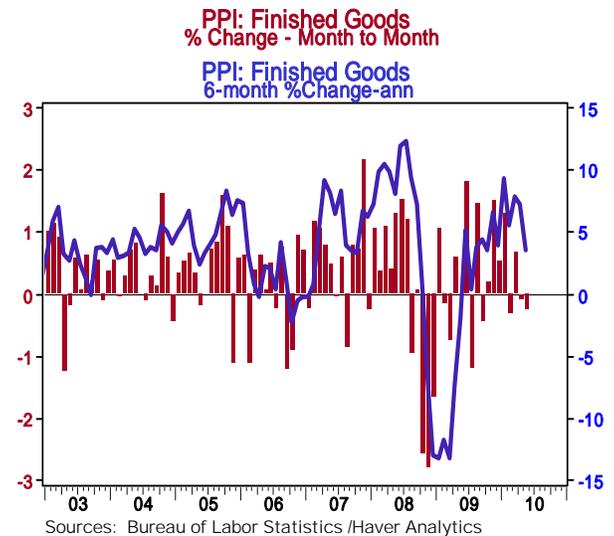


# MAY PPI

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

- The Producer Price Index (PPI) fell 0.3% in May versus a consensus expected drop of 0.5%. The PPI is up 5.3% versus a year ago.
- The May decline in the PPI was mostly due to energy, which fell 1.5%. Food prices also fell 0.6%. The “core” PPI, which excludes food and energy, was up 0.2% versus a consensus expected 0.1%.
- Consumer goods prices declined 0.5% in May but are up 6.9% versus last year. Capital equipment prices increased 0.1% in May and are up 0.6% in the past year.
- Intermediate goods prices increased 0.4% in May and are up 8.4% versus a year ago. Crude prices fell 2.8% in May but are still up 21.5% in the past twelve months.

**Implications:** Producer prices pulled back 0.3% in May, led by a steep drop in energy prices that we already know has reversed direction in June. While the overall PPI has fallen for the past two months, the longer term trend shows a different picture. In the past year, prices are up 5.3%. “Core” inflation, which excludes food and energy, increased 0.2% in May, beating expectations for the second month in a row. Further up in the production process, intermediate goods prices increased 0.4% overall while core intermediate prices increased 0.3%. In the past year, these prices are up 8.4% and 6.1%, respectively, with the rate of core inflation accelerating in recent months. Crude goods prices fell 2.8% in May, yet are still up 21.5% in the past year, and core crude prices are up at a 44.0% annual rate in the past six months. The bottom line is that the underlying trend in producer price inflation remains too high to warrant extremely loose monetary policy from the Federal Reserve. In other recent inflation news, import prices fell 0.6% in May but are up 8.6% versus a year ago. All of the decline in import prices in May was due to oil; excluding petroleum, import prices increased 0.5% and are up 3.7% in the past year, the largest gain since the financial panic struck in late 2008. Export prices advanced 0.7% in May and are up 5.8% in the past year. Excluding agriculture, export prices increased 0.6% in May and are up 6.2% versus a year ago.



| Producer Price Index<br><i>All Data Seasonally Adjusted</i> | May-10       | Apr-10       | Mar-10      | 3-mo % Ch.<br><i>annualized</i> | 6-mo % Ch.<br><i>annualized</i> | Yr to Yr<br><i>% Change</i> |
|---|--------------|--------------|-------------|---------------------------------|---------------------------------|-----------------------------|
| <b>Finished Goods</b>                                       | <b>-0.3%</b> | <b>-0.1%</b> | <b>0.7%</b> | <b>1.1%</b>                     | <b>3.5%</b>                     | <b>5.3%</b>                 |
| <i>Ex Food and Energy</i>                                   | <b>0.2%</b>  | <b>0.2%</b>  | <b>0.1%</b> | <b>2.1%</b>                     | <b>2.0%</b>                     | <b>1.3%</b>                 |
| <b>Food</b>   | <b>-0.6%</b> | <b>-0.2%</b> | <b>2.4%</b> | <b>6.3%</b>                     | <b>7.4%</b>                     | <b>5.7%</b>                 |
| <b>Energy</b>   | <b>-1.5%</b> | <b>-0.8%</b> | <b>0.7%</b> | <b>-6.2%</b>                    | <b>4.5%</b>                     | <b>16.7%</b>                |
| <b>Consumer Goods</b>                                       | <b>-0.5%</b> | <b>-0.2%</b> | <b>0.9%</b> | <b>0.9%</b>                     | <b>4.4%</b>                     | <b>6.9%</b>                 |
| <b>Capital Equipment</b>                                    | <b>0.1%</b>  | <b>0.2%</b>  | <b>0.0%</b> | <b>1.3%</b>                     | <b>1.0%</b>                     | <b>0.6%</b>                 |
| <b>Intermediate Goods</b>                                   | <b>0.4%</b>  | <b>0.8%</b>  | <b>0.6%</b> | <b>7.0%</b>                     | <b>8.9%</b>                     | <b>8.4%</b>                 |
| <i>Ex Food &amp; Energy</i>                                 | <b>0.3%</b>  | <b>1.1%</b>  | <b>0.7%</b> | <b>8.6%</b>                     | <b>8.3%</b>                     | <b>6.1%</b>                 |
| <b>Energy</b>   | <b>0.5%</b>  | <b>0.1%</b>  | <b>0.4%</b> | <b>3.8%</b>                     | <b>13.0%</b>                    | <b>20.5%</b>                |
| <b>Crude Goods</b>  | <b>-2.8%</b> | <b>-1.2%</b> | <b>3.2%</b> | <b>-3.3%</b>                    | <b>11.7%</b>                    | <b>21.5%</b>                |
| <i>Ex Food &amp; Energy</i>                                 | <b>-1.6%</b> | <b>4.0%</b>  | <b>6.0%</b> | <b>38.7%</b>                    | <b>44.0%</b>                    | <b>41.2%</b>                |
| <b>Energy</b>   | <b>-5.1%</b> | <b>-5.9%</b> | <b>1.3%</b> | <b>-33.0%</b>                   | <b>-7.0%</b>                    | <b>24.6%</b>                |

Source: Bureau of Labor Statistics

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