First Trust DATAWATCH

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September PPI

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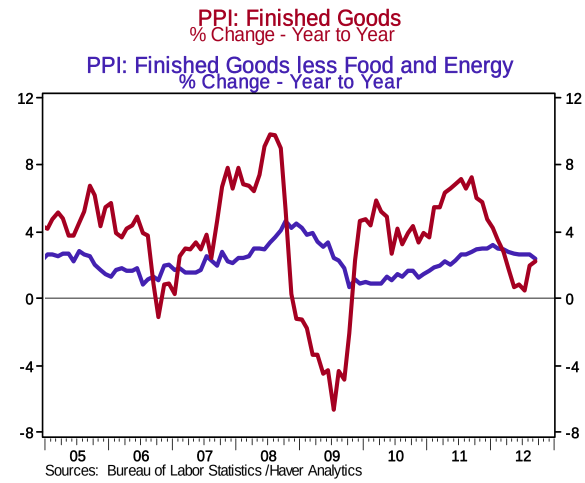
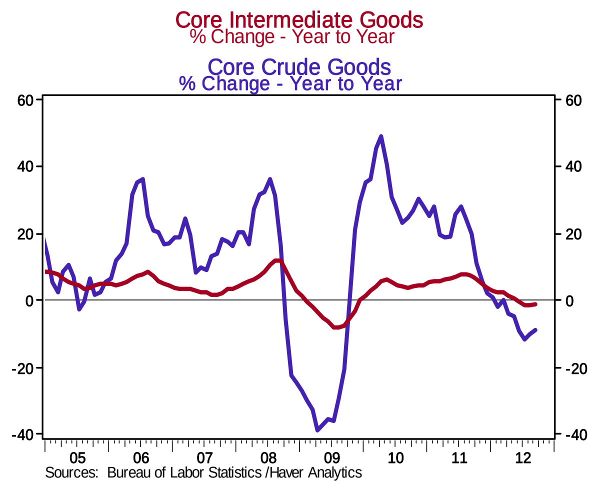
- The Producer Price Index (PPI) increased 1.1% in September, coming in above the consensus expected gain of 0.8%. Producer prices are up 2.1% versus a year ago.
- Most of the gain was due to energy, which rose 4.7%. Food prices rose 0.2%. The "core" PPI, which excludes food and energy, was unchanged.
- Consumer goods prices were up 1.6% in September, and are up 2.4% versus last year. Capital equipment prices fell 0.1% in September but are up 1.7% in the past year.
- Core intermediate goods prices rose 0.6% in September but are down 1.1% versus a year ago. Core crude prices were up 1.6% in September, but are down 8.8% versus a year ago.

Implications: Producer prices rose more than 1% for the second consecutive month in September, mainly due to higher energy prices. The cost of gasoline rose 9.8% while diesel fuel rose 9.2%, the biggest gain since December 2010. The two month change in the PPI is the largest increase since July 2008. Meanwhile, "core" prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were unchanged in September; the first time it was unchanged since October 2011. Even with being flat for a month, "core" prices are up at a 2.7% annual rate in the past three months, well above the Federal Reserve's 2% target. Some analysts may suggest that with the PPI only up 2.1% from a year ago, the Federal Reserve has room for more quantitative easing. We believe monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding more excess reserves to the banking system is not going to boost economic growth. In fact, the tepid growth coming out of the US economy due to fiscal and regulatory issues, as well as uncertainty, is probably holding prices back. Once the election has passed and more certainty has entered the equation, no matter who wins, expect the economy and prices to start to pick up.





Producer Price Index *All Data Seasonally Adjusted*	Sep-12	Aug-12	Jul-12	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	**1.1%**	1.7%	0.3%	12.9%	3.8%	2.1%
Ex Food and Energy	**0.0%**	0.2%	0.4%	2.7%	2.3%	2.3%
Food	**0.2%**	0.9%	0.5%	6.6%	3.5%	1.8%
Energy	**4.7%**	6.4%	-0.4%	51.4%	7.9%	2.1%
Consumer Goods	**1.6%**	2.3%	0.2%	17.6%	4.7%	2.4%
Capital Equipment	**-0.1%**	0.2%	0.2%	1.5%	1.6%	1.7%
Intermediate Goods	**1.5%**	1.1%	-0.9%	6.8%	-0.4%	-0.1%
Ex Food & Energy	**0.6%**	-0.2%	-0.9%	-2.3%	-2.5%	-1.1%
Energy	**4.3%**	4.4%	-1.6%	32.2%	1.1%	0.7%
Crude Goods	**2.8%**	5.8%	1.8%	50.3%	-2.5%	-2.6%
Ex Food & Energy	**1.6%**	2.2%	-1.1%	10.9%	-8.6%	-8.8%
Energy	**4.4%**	9.7%	0.6%	76.1%	-7.5%	-5.9%

Source: Bureau of Labor Statistics

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