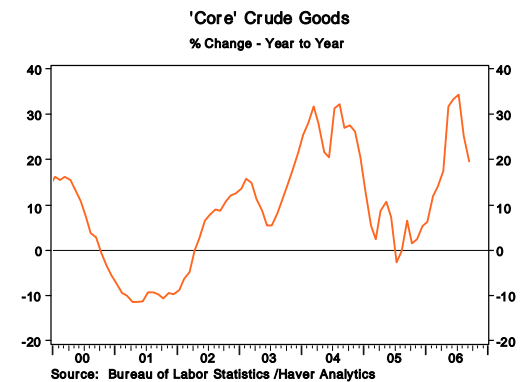
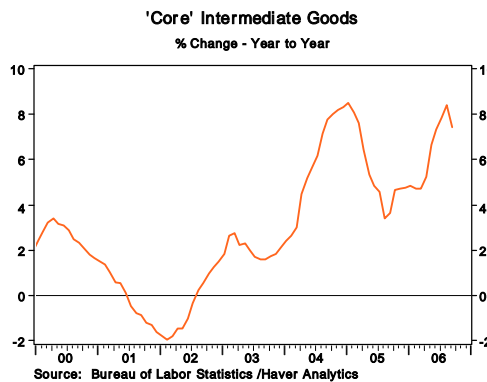
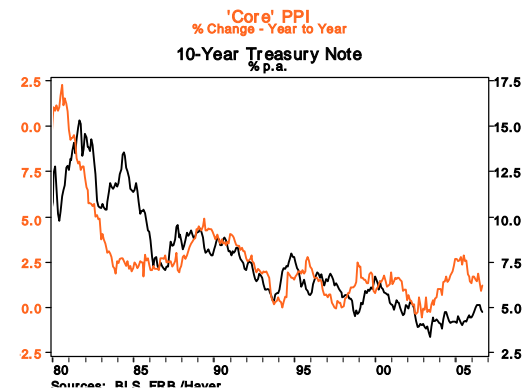
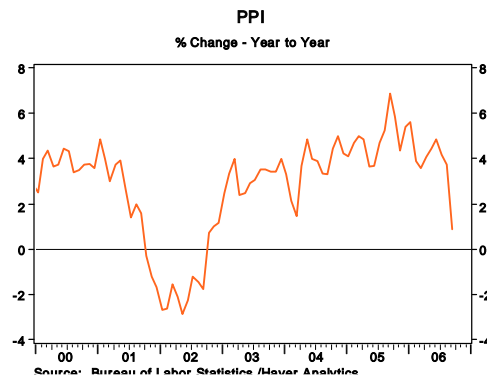


## SEPTEMBER PPI

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- The Producer Price index for finished goods (PPI) fell a more-than-expected 1.3% in September after a 0.1% gain in August. Finished goods prices are up 0.9% in the past year – the lowest YOY gain since 2002. Excluding food and energy, the “core” PPI rose 0.6% last month and the YOY gain accelerated to 1.2%.
- Intermediate goods prices fell 1.4% in September and “core” intermediate rose just 0.1%. Crude prices dropped 3.4% last month, but “core” crude prices surged 1.0%. Over the past year, “core” intermediate prices have increased 7.4% and “core” crude prices have risen 19.7%.

**Implications:** While the headline Producer Price index declined in September, the drop was entirely due to falling energy prices. Energy prices plunged 8.4% last month, the largest one-month decline since 1986. Excluding food and energy, the “core” PPI rose by 0.6% last month, the largest gain since January 2005. Moreover, “core” pipeline inflationary pressures continue to build. In the past year “core” intermediate prices are up 7.4% and “core” crude prices are up 19.7%. While falling energy prices are likely to continue to hold back the headline number in the months ahead, “core” prices show no sign of retreating. With gold near \$600/oz. and real interest rates low, we expect underlying inflation to accelerate throughout the rest of the year.



<b>Producer Price Index</b> <i>All data seasonally adjusted</i>	Sep-06	Aug-06	Jul-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr over Yr <i>% Ch.</i>
<b>Finished Goods</b>	<b>-1.3%</b>	0.1%	0.1%	-4.4%	0.9%	0.9%
<i>Ex Food</i>	<b>-1.8%</b>	-0.2%	0.2%	-7.2%	-0.2%	0.5%
<i>Ex Energy</i>	<b>0.6%</b>	0.1%	-0.3%	1.5%	2.0%	1.5%
<i>Ex Food &amp; Energy</i>	<b>0.6%</b>	-0.4%	-0.3%	-0.3%	1.0%	1.2%
<b>Consumer Food</b>	<b>0.7%</b>	1.4%	-0.3%	7.6%	5.6%	2.2%
<b>Finished Energy Goods</b>	<b>-8.4%</b>	0.3%	1.3%	-24.7%	-4.0%	-1.6%
<b>Capital Equipment</b>	<b>0.6%</b>	-0.3%	-0.2%	0.5%	1.5%	1.4%
<b>Intermediate Materials</b>	<b>-1.4%</b>	0.4%	0.5%	-1.9%	4.0%	4.7%
<i>Ex Energy</i>	<b>0.2%</b>	0.3%	0.7%	5.0%	6.8%	7.1%
<i>Ex Food &amp; Energy</i>	<b>0.1%</b>	0.4%	0.7%	5.0%	7.0%	7.4%
<b>Crude Materials</b>	<b>-3.4%</b>	2.2%	3.1%	8.0%	7.2%	-7.8%
<i>Ex Energy</i>	<b>1.7%</b>	-1.2%	1.6%	8.7%	16.8%	7.6%
<i>Ex Food &amp; Energy</i>	<b>1.0%</b>	-2.8%	1.3%	-1.9%	25.1%	19.7%

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.