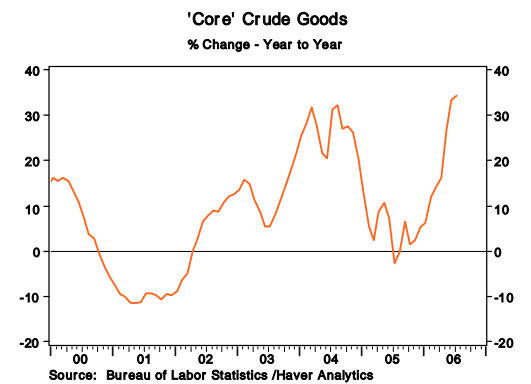
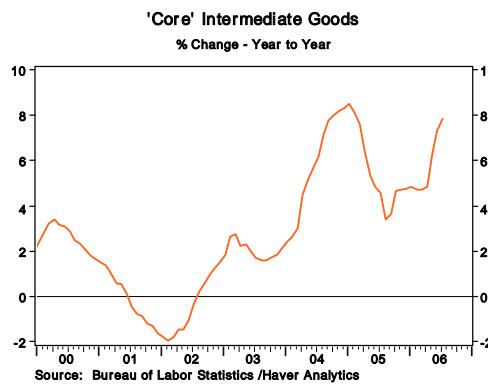
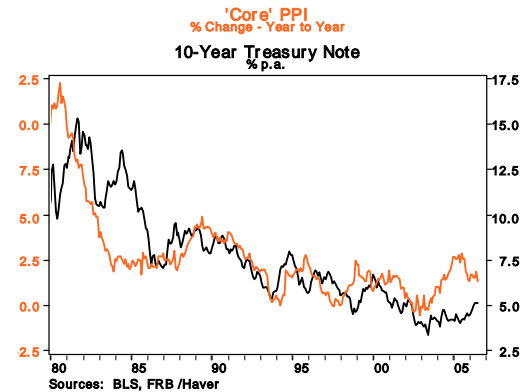
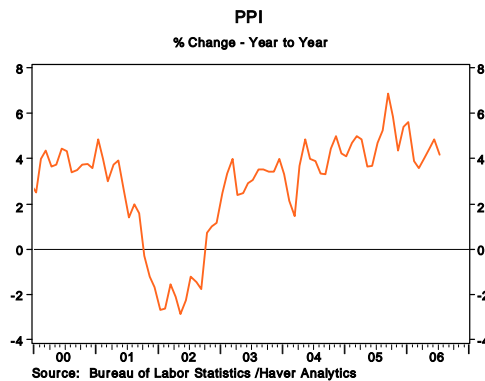


JULY PPI

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- The producer price index for finished goods (PPI) rose a less-than-expected 0.1% in July after a 0.5% gain in June. Finished good prices are up 4.2% in the past year. Excluding food and energy, the “core” PPI fell by 0.3% last month and the YOY gain retreated to 1.3%
- Intermediate goods prices rose 0.5% in July, while “core” intermediate prices jumped 0.7%. Crude prices rose 3.1% last month and “core” crude prices surged 1.3%. In the past year, “core” intermediate prices have increased 7.9% and “core” crude prices have risen 34.6%.

Implications: The PPI for finished goods was unexpectedly benign in July, and reinforces the Fed’s decision to pause in early August. Despite a loud sigh of relief coming from the markets today, the US economy is not out of the inflation woods yet. Crude and intermediate price indices continue to rise rapidly as does the overall PPI, which is up 4.2% in the past year. The major factor pulling down the PPI today was a sharp drop in auto (-0.8%) and truck (-3.1%) prices. These declines subtracted roughly 0.4% from the “core” finished goods PPI, but these declines have not been feeding through to the consumer. In the past year, auto prices in the PPI have fallen 3.8%, while they are up 0.1% according to the CPI. This leaves the “core” finished goods PPI on an island, with prices pressures on both sides (crude, intermediate and consumer) rising more rapidly. “Core” finished goods prices are up 1.3% in the past year, “core” consumer prices are up 2.6%, “core” intermediate prices have risen 7.9%, and “core” crude prices are up 34.6%. Nonetheless, the surprise decline in the “core” PPI will give confidence to those who believe the Fed has done enough. Our models, however, continue to believe that monetary policy has not yet reached neutral. As a result, we view this weaker-than-expected producer price report as an aberration.



| Producer Price Index <i>All data seasonally adjusted</i> | Jul-06 | Jun-06 | May-06 | 3-mo % Ch <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr over Yr <i>% Ch.</i> |
|--|---------------|---------------|---------------|---------------------------------------|--|-----------------------------------|
| Finished Goods | 0.1% | 0.5% | 0.2% | 3.3% | 1.9% | 4.2% |
| <i>Ex Food</i> | 0.2% | 0.3% | 0.4% | 3.5% | 3.0% | 5.0% |
| <i>Ex Energy</i> | -0.3% | 0.5% | 0.1% | 1.3% | 0.6% | 1.2% |
| <i>Ex Food & Energy</i> | -0.3% | 0.2% | 0.3% | 0.8% | 1.7% | 1.3% |
| Consumer Food | -0.3% | 1.4% | -0.5% | 2.9% | -2.4% | 1.1% |
| Finished Energy Goods | 1.3% | 0.7% | 0.4% | 10.0% | 6.6% | 16.2% |
| Capital Equipment | -0.2% | 0.3% | 0.3% | 1.4% | 1.9% | 1.3% |
| Intermediate Materials | 0.5% | 0.7% | 1.1% | 9.7% | 5.6% | 8.8% |
| <i>Ex Energy</i> | 0.7% | 0.8% | 1.1% | 10.9% | 7.1% | 7.6% |
| <i>Ex Food & Energy</i> | 0.7% | 0.8% | 1.1% | 11.1% | 7.4% | 7.9% |
| Crude Materials | 3.1% | -1.7% | 2.0% | 14.2% | -12.6% | 6.7% |
| <i>Ex Energy</i> | 1.6% | 3.4% | 1.4% | 28.5% | 12.1% | 11.6% |
| <i>Ex Food & Energy</i> | 1.3% | 1.7% | 6.2% | 43.3% | 41.4% | 34.6% |

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.