First Trust

Data Watch

July 15, 2008 • 630.322.7756 • http://www.ftportfolios.com

JUNE PPI

- The Producer Price Index (PPI) increased 1.8% in June versus a consensus expected rise of 1.3%. The PPI is up 9.1% in the past twelve months (seasonally adjusted).
- Most of the increase in the PPI was due to energy and food. Energy prices increased 6.0% in June and are up 26.9% in the past year. Food prices increased 1.5% in June and are up 8.4% versus last year. The "core" PPI, which excludes food and energy, was up 0.2% in June (0.24% un-rounded) and is up 3.1% versus last year.
- Consumer goods prices increased 2.3% in June and are up 11.2% since last year. Capital equipment prices increased 0.3% in June and are up 2.4% versus a year ago.
- Intermediate goods prices rose 2.1% in June and are up at a 26.8% annual rate in the past three months. Crude prices increased 3.7% in June and have risen at a 70.1% annual rate in the past three months.

Implications: Inflation is becoming an overwhelming problem for the US economy. Producer prices are up 9.1% versus last year, the largest one-year increase since 1981. Meanwhile, prices for intermediate goods are up 14.5% versus last year, the most since 1980. While food and energy prices have accounted for the lion's share of the price increase, "core" prices are also signaling trouble. Core prices are up at a 4.5% annual rate in the past six months and up 3.1% versus a year ago, the most since 1991. In our view, falling oil prices are not going to arrest inflation. If oil prices fall, core price inflation will accelerate, as more of the Fed's loose monetary policy will be available to fuel price increases for those products. Note that

e to energy and food. d are up 26.9% in the in June and are up which excludes food 6 un-rounded) and is

-2.5



inflation over the past year reflects the stance of monetary policy 18-24 months ago, when the Federal Reserve was not as loose as it is today. This suggests the trend in inflation will be upward over the next couple of years.

Producer Price Index	Jun-08	May-08	Apr-08	3-mo % Ch.	6-mo % Ch.	Yr to Yr
All Data Seasonally Adjusted				annualized	annualized	% Change
Finished Goods	1.8%	1.4%	0.2%	14.1%	12.4%	9.1%
Ex Food and Energy	0.2%	0.2%	0.4%	3.7%	4.5%	3.1%
Food	1.5%	0.8%	0.0%	9.6%	9.8%	8.4%
Energy	6.0%	4.9%	-0.2%	51.9%	38.1%	26.9%
Consumer Goods	2.3%	1.8%	0.1%	18.0%	15.1%	11.2%
Capital Equipment	0.3%	0.1%	0.4%	3.2%	3.8%	2.4%
Intermediate Goods	2.1%	2.9%	0.9%	26.8%	22.5%	14.5%
Ex Food & Energy	1.3%	2.0%	1.2%	19.3%	14.8%	8.4%
Energy	5.0%	6.2%	0.5%	57.5%	48.9%	34.6%
Crude Goods	3.7%	6.7%	3.2%	70.1%	74.0%	45.7%
Ex Food & Energy	-0.2%	5.0%	7.9%	63.4%	61.3%	33.3%
Energy	5.4%	13.1%	4.1%	137.0%	132.7%	72.1%

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.

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> PPI Change - Year to Year

> > 10.0

7.5

5.0

2.5

0.0

-2.5