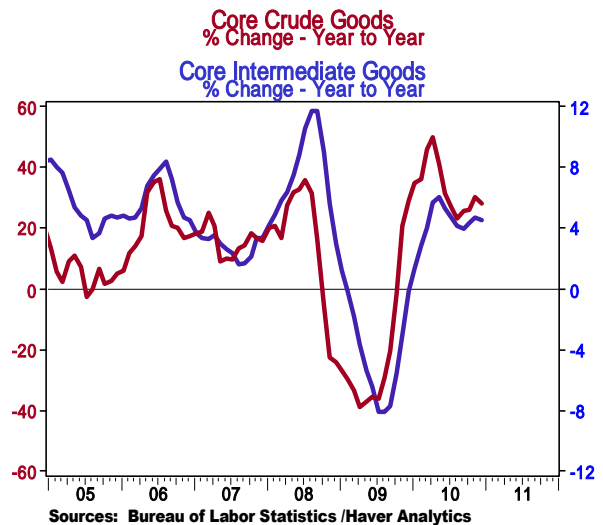
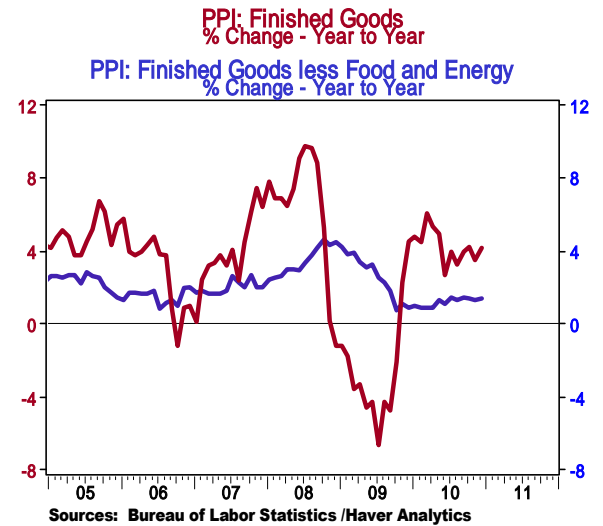


DECEMBER PPI

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- The Producer Price Index (PPI) increased 1.1% in December, beating the consensus expected gain of 0.8%. Producer prices are up 4.0% versus a year ago.
- The December rise in the PPI was mostly due to energy prices. Energy prices increased 3.7% while food prices rose 0.8%. The “core” PPI, which excludes food and energy, increased 0.2%, matching the consensus expected increase.
- Consumer goods prices rose 1.5% in December and are up 5.2% versus last year. Capital equipment prices were up 0.1% in December and are up 0.4% in the past year.
- Intermediate goods prices increased 1.0% in December and are up 6.6% versus a year ago. Crude prices increased 4.0% in December and are up 15.6% in the past twelve months.

Implications: Inflation reared its ugly head in December, with producer prices increasing 1.1% for the month. December’s jump was the largest monthly increase since January 2010. While much of the gain was due to energy, which increased 3.7% in December, the bigger story about today’s PPI was deeper in the report. Further up the production pipeline, crude goods prices increased 4% in December alone and are up a whopping 15.6% over the past year. Prices for intermediate goods are up 6.6% in the past year overall and core intermediate prices are up 4.5%. Eventually, some of these increases will filter through to prices for finished goods. It’s important to note that these inflation figures are the result of monetary policy before the Fed’s second round of quantitative easing had any effect, which means inflation could potentially be even higher in the next two years. In other recent news, new claims for unemployment insurance increased 35,000 last week to 445,000. The four-week moving average is 417,000. Continuing claims for regular state benefits fell 248,000 to 3.88 million, the lowest level since October 2008.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-10	Nov-10	Oct-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.1%	0.8%	0.4%	9.7%	7.0%	4.0%
Ex Food and Energy	0.2%	0.3%	-0.6%	-0.5%	0.8%	1.3%
Food	0.8%	1.0%	-0.1%	7.4%	8.0%	3.5%
Energy	3.7%	2.1%	3.7%	45.0%	24.6%	12.3%
Consumer Goods	1.5%	1.0%	0.8%	14.0%	9.5%	5.2%
Capital Equipment	0.1%	0.2%	-0.8%	-1.8%	0.0%	0.4%
Intermediate Goods	1.0%	1.1%	1.2%	14.3%	8.1%	6.6%
Ex Food & Energy	0.4%	0.7%	0.6%	6.6%	3.1%	4.5%
Energy	3.1%	2.8%	3.2%	43.3%	23.8%	13.8%
Crude Goods	4.0%	0.6%	4.3%	41.1%	29.8%	15.6%
Ex Food & Energy	3.1%	3.1%	2.1%	39.1%	36.4%	28.1%
Energy	7.7%	-1.3%	5.4%	57.5%	15.2%	6.2%

Source: Bureau of Labor Statistics

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