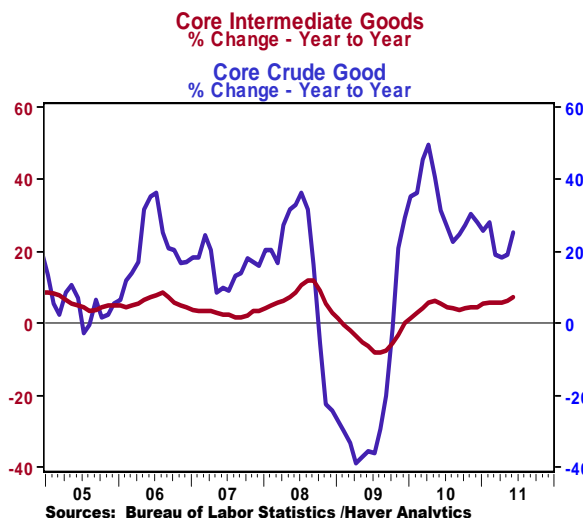
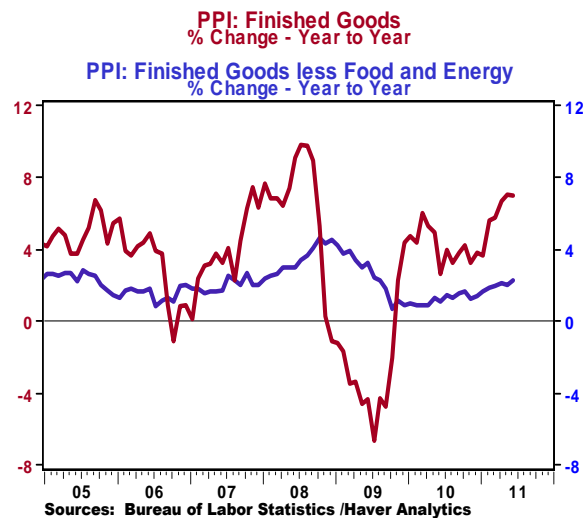


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June PPI

- The Producer Price Index (PPI) fell 0.4% in June, a larger decline than the consensus expected (-0.2%). Producer prices are up 7.0% versus a year ago.
- The June drop in the PPI was all due to energy, which fell 2.8%. Food prices rose 0.6%. The “core” PPI, which excludes food and energy, increased 0.3%, a larger increase than the consensus expected (+0.2%).
- Consumer goods prices fell 0.6% in June but are up 8.9% versus last year. Capital equipment prices were up 0.3% in June and are up 1.6% in the past year.
- Core intermediate goods prices increased 0.3% in June and are up 7.2% versus a year ago. Core crude prices rose 1.1% in June and are up 25.1% in the past twelve months.

Implications: Due to a drop in energy prices, overall producer price inflation took a breather in June, with prices dropping 0.4%, a larger decline than the consensus expected. Despite the decline in June, producer prices are up 7% versus a year ago, and with oil rebounding, overall producer prices are likely to rise in July. Meanwhile, “core” producer price inflation, which excludes food and energy, is accelerating, rising 0.3% in June and up at a 3.7% annual rate in the past six months. With the exception of late 2008 and early 2009 as well as a brief period in 2004-05, this is the fastest increase in the core PPI in 20 years. Further up the production pipeline, core intermediate prices increased 0.3% in June and are up 7.2% versus a year ago. Core crude prices are up 25.1% in the past year. These data will eventually make it tougher for the Federal Reserve to justify holding short-term interest rates at essentially zero. In other recent inflation news, import prices declined 0.5% in June. The decline in June was mostly, but not completely, due to oil; ex-petroleum, import prices declined 0.2%. Despite the decline in June, overall import prices are up 13.6% in the past year and up 4.9% excluding oil. Export prices increased 0.1% in June and are up 9.9% in the past year. Ex-agriculture, export prices were unchanged in June but are up 7.8% in the past year, the largest increase on record (dating back to the mid-1980s). In other news this morning, new claims for unemployment insurance declined 22,000 last week to 405,000. Continuing claims for regular state benefits increased 15,000 to 3.73 million.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jun-11	May-11	Apr-11	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.4%	0.2%	0.8%	2.6%	8.1%	7.0%
Ex Food and Energy	0.3%	0.2%	0.3%	3.2%	3.7%	2.4%
Food	0.6%	-1.4%	0.3%	-2.0%	7.1%	7.3%
Energy	-2.8%	1.5%	2.5%	4.4%	21.1%	19.9%
Consumer Goods	-0.6%	0.2%	0.9%	2.2%	9.8%	8.9%
Capital Equipment	0.3%	0.2%	0.3%	3.3%	3.2%	1.6%
Intermediate Goods	0.0%	0.9%	1.3%	9.4%	15.0%	11.0%
Ex Food & Energy	0.3%	0.9%	1.1%	9.4%	10.9%	7.2%
Energy	-0.8%	1.4%	1.9%	10.5%	28.1%	23.2%
Crude Goods	-0.6%	-4.1%	4.0%	-3.5%	9.7%	25.5%
Ex Food & Energy	1.1%	-0.9%	2.6%	11.8%	14.7%	25.1%
Energy	-4.1%	-5.2%	4.8%	-17.7%	-7.7%	19.2%

Source: Bureau of Labor Statistics

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