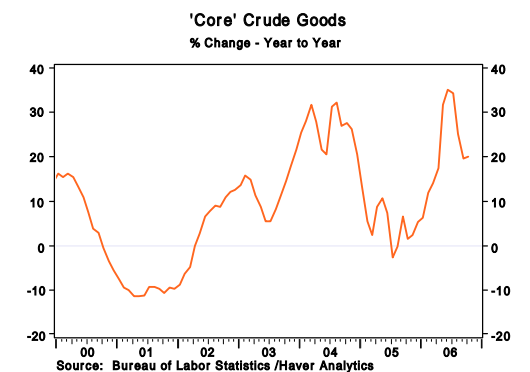
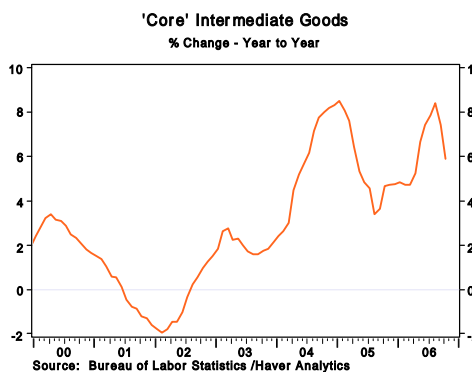
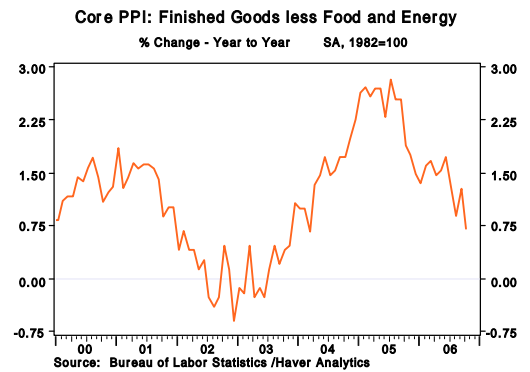
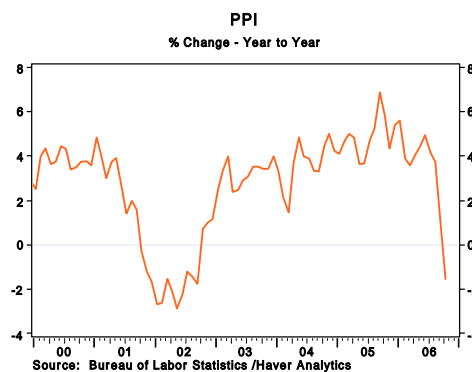


OCTOBER PPI

■ The Producer Price Index fell 1.6% in October after a 1.3% drop in September. After excluding food and energy, the “core” PPI fell 0.9% in October, following an increase of 0.6% in September. In the past year, the overall PPI has fallen by 1.6%, while “core” producer prices are up 0.6%. Energy, food and motor vehicle price declines pulled down the indices.

■ Intermediate goods prices fell 1.1% in October, while “core” intermediate prices were unchanged. Crude goods prices plummeted by 10.5% last month, and “core” crude goods prices fell 1.3%. Despite these weaker than expected numbers, over the past year, “core” intermediate prices have increased 5.9% and “core” crude prices have risen 20.0%.



Implications: While the headline Producer Price Index declined for the second consecutive month in October, and is now down on a YOY basis for the first time since 2002, we find it hard to believe that the US is anywhere near deflation. Large declines in energy (-5.0%), food (-0.8%), car (-2.3%), and truck prices (-9.7%), pulled the index down. While these price declines were relatively widespread, there is evidence that they will not last. Grain prices have soared in recent months (as have most non-energy, non-precious metal commodity prices), motor vehicle prices were held down by changes in the timing of new-year auto discounts and energy prices have stabilized in the past few weeks. The “core” PPI, excluding car and truck prices, was actually up 0.1%. As a result, while the PPI data make it appear that inflationary pressures are disappearing, as Market New Service reported, the wide array of declines in prices was “coincidental and not correlated.” Inflation is not dead yet.

Producer Price Index <i>All data seasonally adjusted</i>	Oct-06	Sep-06	Aug-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr over Yr <i>% Ch.</i>
Finished Goods	-1.6%	-1.3%	0.1%	-10.9%	-4.2%	-1.6%
<i>Ex Food</i>	-1.9%	-1.8%	-0.2%	-14.6%	-6.0%	-2.3%
<i>Ex Energy</i>	-0.8%	0.6%	0.1%	-0.8%	0.1%	0.8%
<i>Ex Food & Energy</i>	-0.9%	0.6%	-0.4%	-2.7%	-0.9%	0.6%
Consumer Food	-0.8%	0.7%	1.4%	5.2%	3.4%	1.3%
Finished Energy Goods	-5.0%	-8.4%	0.3%	-41.8%	-19.8%	-10.3%
Capital Equipment	-0.9%	0.6%	-0.3%	-2.2%	-0.5%	0.8%
Intermediate Materials	-1.1%	-1.4%	0.4%	-8.2%	-0.2%	0.6%
<i>Ex Energy</i>	0.0%	0.2%	0.3%	2.0%	5.6%	5.6%
<i>Ex Food & Energy</i>	0.0%	0.1%	0.4%	1.9%	5.6%	5.9%
Crude Materials	-10.5%	-3.4%	2.2%	-38.8%	-18.4%	-22.0%
<i>Ex Energy</i>	1.3%	1.7%	-1.2%	7.4%	16.1%	9.8%
<i>Ex Food & Energy</i>	-1.3%	1.0%	-2.8%	-11.6%	10.0%	20.0%

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.