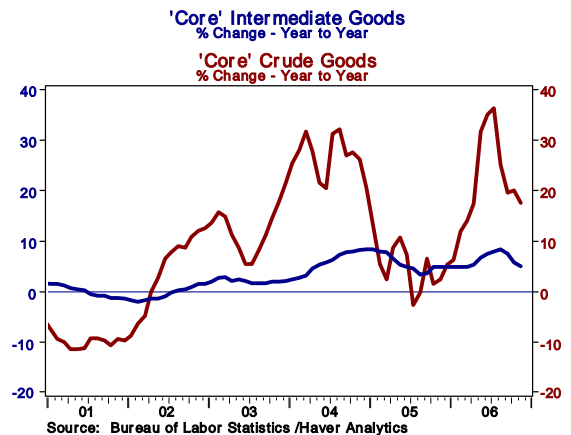
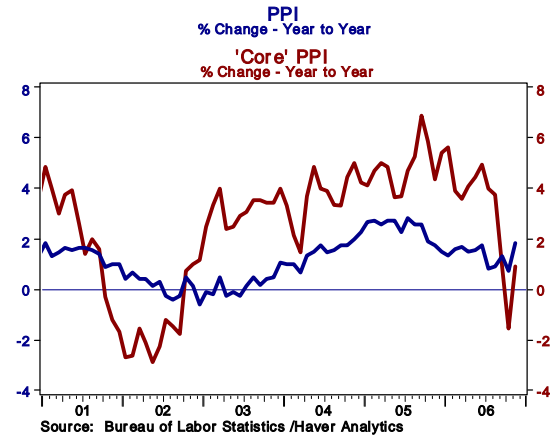


NOVEMBER PPI

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- The Producer Price Index (PPI) increased 2.0% in November after two consecutive down months. The rise in November was the largest single-month increase since 1974. The consensus expected an increase of 0.5%. The PPI is up 0.9% versus a year ago.
- Although some of the large increase in November was due to a rebound in energy prices, even the “core” PPI, which excludes food and energy, was up 1.3% (the largest single-month rise since 1980) and is now up 1.8% versus a year ago.
- Consumer goods prices increased 2.2% in November and are up 0.4% versus a year ago. Led by gasoline and natural gas prices, capital equipment prices increased 1.4% and are up 2.2% versus a year ago.
- Intermediate goods prices rose 0.7% in November and are up 2.6% versus a year ago. “Core” intermediate goods prices are up 5.1% versus a year ago. Crude goods prices increased 15.7% in November but are down 8.5% when compared to the year-ago, hurricane induced spike in energy prices. “Core” crude prices are up 17.8% versus a year ago.
- **Implications:** Today’s report on producer prices has many heads spinning in the financial markets. A growing group of analysts had become increasingly convinced that inflation was yesterday’s problem, not a problem for the year ahead. These analysts focused on the flat CPI readings last Friday to make their case, ignoring that the median CPI was up again and is now at 3.7% year-to-year. The PPI data show inflation is “too alive and too well” for the Federal Reserve to be complacent. It supports our belief that inflation pressures are likely to move higher over the course of 2007.



Producer Price Index <i>All data seasonally adjusted</i>	Nov-06	Oct-06	Sep-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr over Yr <i>% Ch.</i>
Finished Goods	2.0%	-1.6%	-1.3%	-3.9%	-0.6%	0.9%
<i>Ex Food and Energy</i>	1.3%	-0.9%	0.6%	3.8%	1.1%	1.8%
Food	0.1%	-0.8%	0.7%	0.0%	5.4%	0.8%
Energy	6.1%	-5.0%	-8.4%	-27.0%	-11.1%	-1.8%
Consumer Goods	2.2%	-1.9%	-2.0%	-10.0%	-3.3%	0.4%
Capital Equipment	1.4%	-0.9%	0.6%	4.7%	1.9%	2.2%
Intermediate Goods	0.7%	-1.1%	-1.4%	-7.2%	-1.1%	2.6%
<i>Ex Food & Energy</i>	-0.3%	0.0%	0.1%	-0.7%	2.8%	5.1%
Energy	4.2%	-5.5%	-7.5%	-31.0%	-15.8%	-6.6%
Crude Goods	15.7%	-10.5%	-3.4%	0.2%	5.6%	-8.5%
<i>Ex Food & Energy</i>	0.5%	-1.3%	1.0%	1.0%	-6.7%	17.8%
Energy	35.8%	-23.5%	-8.4%	-17.7%	-2.9%	-22.8%

Source: Bureau of Labor Statistics

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