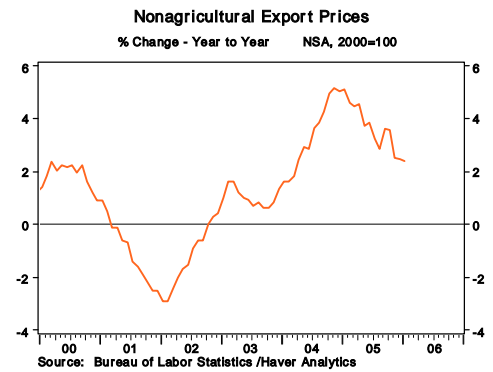
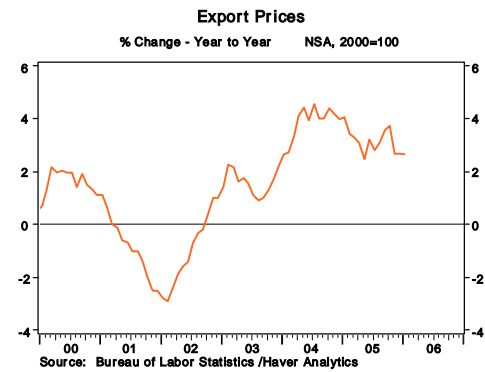
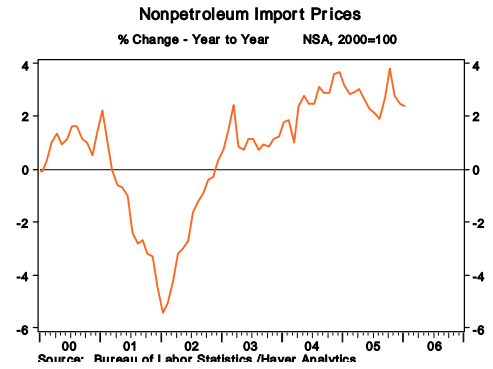
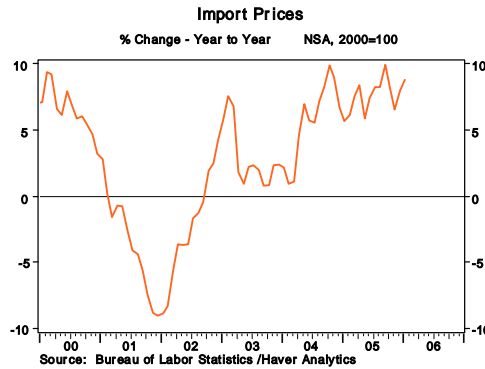


JANUARY IMPORT / EXPORT PRICES

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- Import prices surged 1.3% in January, higher than the consensus estimates of a 0.9% gain. Excluding a 6.4% increase in petroleum prices, non-petroleum import prices rose 0.2%. In the past 12 months, import prices are up 8.8% and non-petro import prices are up 2.4%.
- Both export prices and non-agricultural export prices rose 0.7% last month. Export prices have risen 2.7% in the past year, while non-ag export prices are up 2.4%.

Implications: Trade related prices surprised on the upside in January, with import prices rising 1.3% and export prices increasing 0.7%. “Core” prices also accelerated, as non-petro prices increased 0.2% in January and non-ag prices rose 0.7%. This is the highest monthly gain in both of these measures in the past three months. While the YOY gain in trade prices has stabilized, a comparison to historical norms suggests that inflationary pressures remain elevated. Over the past 12 months, non-petro import prices and non-ag export prices have increased by 2.4%, - well above the 15-year average of 0.3% and 0.7%, respectively. Because there is a 12-36 month lag between Fed action and economic reaction, price pressures are likely to build throughout all of this year. As the Fed moves short-term rates closer to neutral (a fed funds rate of at least 5%), our confidence that inflation will not rise further in 2007 has grown. But, if the Fed stops short, our inflation forecasts could rise.



Import and Export Prices <i>Data not seasonally adjusted</i>	Jan-06	Dec-05	Nov-05	3-mo % ch. <i>annualized</i>	6-mo % ch. <i>annualized</i>	Yr-over-Yr % Change
All Imports	1.3%	-0.1%	-1.8%	-2.4%	6.1%	8.8%
Non-Petroleum	0.2%	0.1%	-0.1%	0.8%	4.4%	2.4%
Petroleum & Petroleum Products	6.4%	-0.4%	-9.1%	-14.1%	14.7%	48.3%
Capital Goods	-0.1%	0.0%	-0.2%	-1.3%	-1.5%	-1.6%
Autos, Parts & Engines	-0.1%	0.0%	-0.1%	-0.8%	0.2%	0.3%
All Exports	0.7%	0.1%	-0.7%	0.4%	3.0%	2.7%
Non-agricultural	0.7%	0.2%	-0.7%	0.4%	3.6%	2.4%
Agricultural	0.7%	-0.7%	-0.2%	-1.0%	-3.7%	4.7%
Capital Goods	0.2%	0.1%	-0.2%	0.4%	-0.4%	-0.6%
Motor Vehicles	0.2%	-0.1%	0.0%	0.4%	1.2%	1.0%

Source: Bureau of Labor Statistics

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