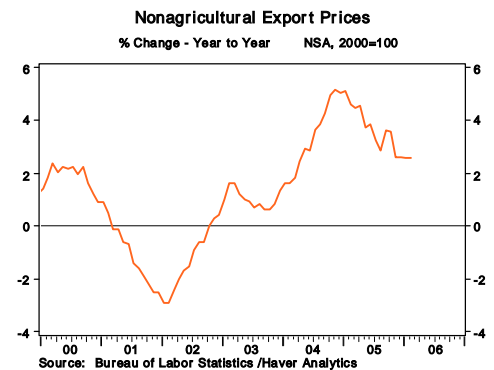
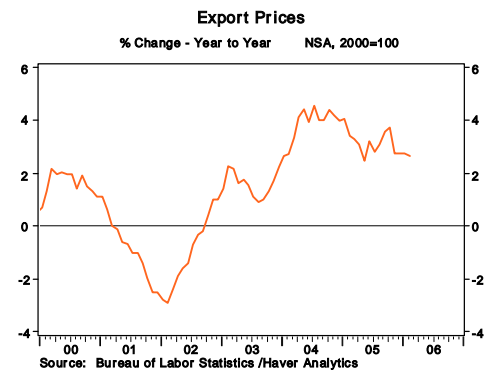
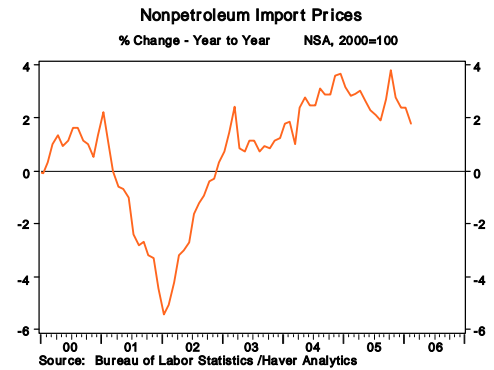
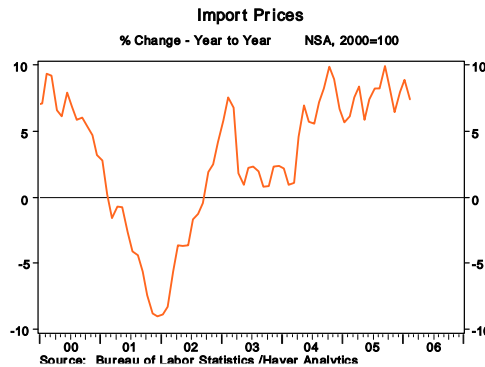


Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

FEBRUARY IMPORT / EXPORT PRICES

- Import prices fell 0.5% in February after surging 1.4% in January. Excluding a 0.7% decline in petroleum prices, import prices still declined 0.5%. Excluding all fuels (which includes natural gas) import prices rose 0.2% in February.
- Export prices were flat in February versus a 0.7% increase in January. A 1.1% decline in agriculture prices offset a 0.1% increase in non-agricultural prices. A 0.3% increase in industrial supplies and materials accounted for much of the increase in non-ag prices. In the past year, imported industrial supply and material prices have risen 8.3%.



Implications: Falling energy prices pulled overall import prices down in February, while a strengthening dollar held back gains in non-petroleum import prices. From late 2001 to late 2004, the dollar fell by roughly 15% against a trade-weighted basket of foreign currencies. This sharp decline in the dollar pushed import prices up. Since then, a less accommodative monetary policy has caused the dollar to stabilize, and import price inflation has cooled. In the past 12 months, non-petroleum import prices have increased just 1.8%. While this is the slowest YOY gain since March 2004, it remains well above the 15-year average annualized gain of 0.2%. In other words, inflationary pressures have not yet abated. Separately, the NY Fed manufacturing survey exploded to 31.1 in March- the highest level since July 2004. Employment indicators were especially strong, with the employment component rising to 21.8 in March versus 6.0 in February and the average employee workweek index increasing to 25.3 last month versus 5.5 in February. While some may view the weak import price data as a sign the Fed has hiked rates enough, a tight labor market and strong growth will push the Fed to hike rates further.

Import and Export Prices <i>Data not seasonally adjusted</i>	Feb-06	Jan-06	Dec-05	3-mo % ch. annualized	6-mo % ch. annualized	Yr-over-Yr % Change
All Imports	-0.5%	1.4%	0.0%	3.6%	2.2%	7.4%
Non-Petroleum	-0.5%	0.3%	0.0%	-0.8%	3.2%	1.8%
Petroleum & Petroleum Products	-0.7%	6.9%	-0.1%	26.2%	-1.0%	40.8%
Capital Goods	0.2%	-0.1%	0.0%	0.4%	-1.1%	-1.3%
Autos, Parts & Engines	0.1%	-0.1%	-0.1%	-0.4%	0.2%	0.4%
All Exports	0.0%	0.7%	0.1%	3.4%	3.6%	2.6%
Non-agricultural	0.1%	0.7%	0.2%	4.2%	4.4%	2.6%
Agricultural	-1.1%	0.7%	-0.7%	-4.2%	-4.7%	4.2%
Capital Goods	-0.1%	0.2%	0.1%	0.8%	0.4%	-0.7%
Motor Vehicles	0.1%	0.3%	-0.1%	1.2%	1.4%	1.2%

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.