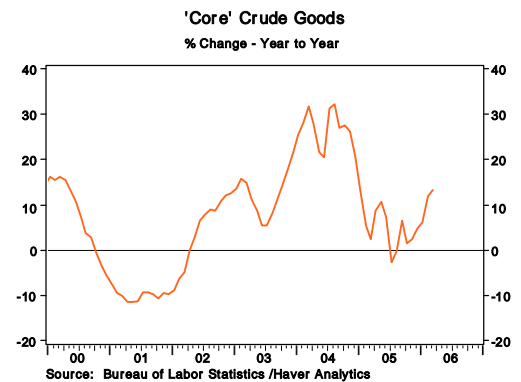
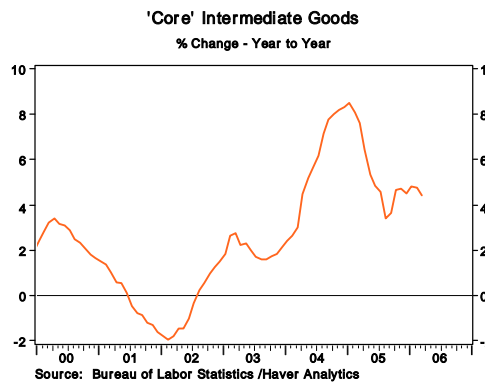
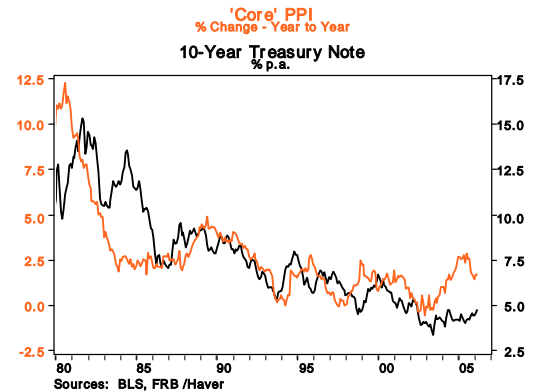
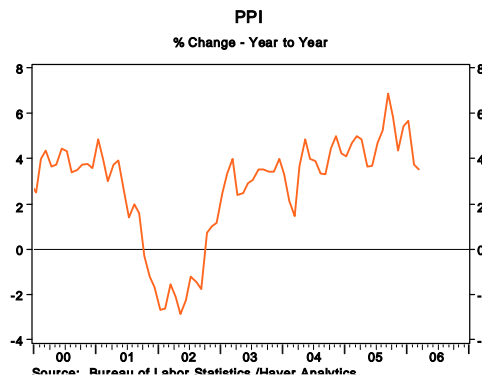


## MARCH PPI

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- The producer price index for finished goods (PPI) rose 0.5% in March after a 1.4% drop in February. Finished good prices are up 3.5% in the past year. Excluding food and energy, the “core” PPI increased by a less than expected 0.1% last month. While the YOY gain was steady at 1.7%, the three-month annualized change was 3.1%.
- Intermediate goods prices slid 0.1%, while “core” intermediate prices increased a subdued 0.1%. Crude prices fell 2.7% last month, while “core” crude prices rose 0.8%. In the past year, “core” intermediate prices have increased 4.5% and “core” crude prices have risen 13.2%.



**Implications:** While the increase in the “core” PPI was tame in March, sharp increases in commodity prices suggest that inflationary pressures continue to build. In the past three months, “core” intermediate prices are up 6.7% and “core” crude producer prices are up 16.9%. Gold is well above \$600/oz., silver has climbed above \$13/oz., and oil has moved above \$70/bbl. These rising prices suggest that monetary policy remains accommodative. While overall measures of inflation (the PPI and CPI) have not accelerated as dramatically as commodity prices, we continue to expect a increase in general inflationary pressures as 2006 unfolds. Fears of this inflation have hit the bond market and the dollar and there are some signs that inflation sensitive stock indices are bothered by it as well. We have remained consistent in recent years, suggesting that a neutral federal funds rate was somewhere near 5.5%. Recent strength in commodity prices, however, are signaling that a neutral rate may be closer to 6.0%. While futures markets have priced in a pause in Fed rate hikes at 5%, we suspect that this is wishful thinking. Once again, the market is underestimating how far the Fed is likely to go.

Producer Price Index <i>All data seasonally adjusted</i>	Mar-06	Feb-06	Jan-06	3-mo % Ch	6-mo % Ch.	Yr over Yr
				<i>annualized</i>	<i>annualized</i>	<i>% Ch.</i>
<b>Finished Goods</b>	<b>0.5%</b>	-1.4%	0.2%	-2.5%	0.8%	3.5%
<i>Ex Food</i>	<b>0.5%</b>	-1.1%	0.2%	-1.2%	1.3%	4.8%
<i>Ex Energy</i>	<b>0.3%</b>	-0.5%	0.3%	0.3%	0.8%	0.9%
<i>Ex Food &amp; Energy</i>	<b>0.1%</b>	0.3%	0.4%	3.1%	1.5%	1.7%
<b>Consumer Food</b>	<b>0.5%</b>	-2.7%	0.2%	-7.6%	-1.5%	-1.5%
<b>Finished Energy Goods</b>	<b>1.8%</b>	-4.7%	0.0%	-11.6%	0.8%	15.6%
<b>Capital Equipment</b>	<b>0.1%</b>	0.1%	0.3%	2.5%	1.1%	1.4%
<b>Intermediate Materials</b>	<b>-0.1%</b>	-0.3%	1.2%	3.0%	5.0%	7.0%
<i>Ex Energy</i>	<b>0.1%</b>	0.4%	1.0%	6.3%	7.0%	4.3%
<i>Ex Food &amp; Energy</i>	<b>0.1%</b>	0.5%	1.0%	6.7%	7.5%	4.5%
<b>Crude Materials</b>	<b>-2.7%</b>	-9.2%	-0.5%	-40.3%	-20.5%	4.9%
<i>Ex Energy</i>	<b>-1.0%</b>	-0.5%	-1.9%	-12.8%	-1.1%	-1.8%
<i>Ex Food &amp; Energy</i>	<b>0.8%</b>	3.3%	-0.1%	16.9%	13.3%	13.2%

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.