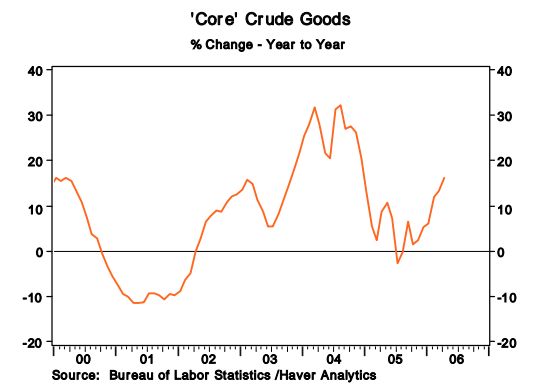
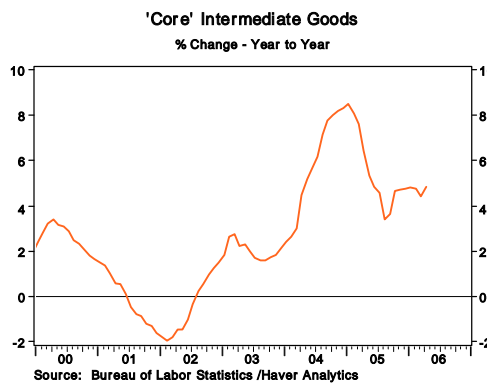
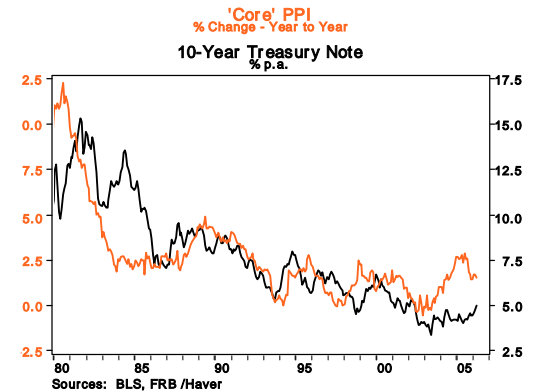
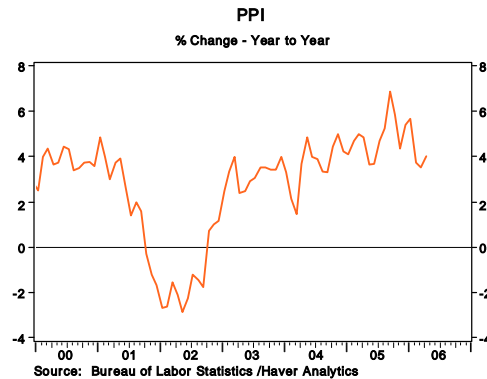


APRIL PPI

Brian S. Wesbury
Chief Economist
Bill Mulvihill
Senior Economist

- The producer price index for finished goods (PPI) jumped 0.9% in April after a 0.5% gain in March. Finished good prices are up 4.0% in the past year. Excluding food and energy, the “core” PPI increased by a less than expected 0.1% last month and the YOY gain fell to 1.5%
- Intermediate goods prices increased 0.9%, while “core” intermediate prices rose 0.4%. Crude prices increased last month and “core” crude prices surged 4.7%. In the past year, “core” intermediate prices have increased 4.9% and “core” crude prices have risen 16.0%.

Implications: The divergence between overall prices and “core” prices (excluding food and energy) continued in April with the PPI increasing 0.9% and the “core” PPI up 0.1%. In the past year, the PPI is up a hefty 4.0%, while the “core” PPI has risen just 1.5%. This mild increase in the “core” PPI is a bit misleading, with falling auto prices a significant reason for the muted gains. The PPI excluding food, energy and autos rose 0.2% in April and is up 2.0% in the past year. While, this YOY gain is still well below the headline number, it is at the upper end of the Fed’s comfort zone. Moreover, in the past 12-months, “core” intermediate prices and “core” crude prices have risen 4.9% and 16.0%, respectively. These elevated pipeline prices suggest that inflationary pressures continue to build. Despite 16 consecutive rate hikes, the Fed remains behind the inflation curve. We remain concerned that past Fed ease is still working its way through the system and believe that a neutral federal funds rate is between 5.5% and 6.0%.



Producer Price Index <i>All data seasonally adjusted</i>	Apr-06	Mar-06	Feb-06	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr over Yr <i>% Ch.</i>
Finished Goods	0.9%	0.5%	-1.4%	0.2%	1.1%	4.0%
<i>Ex Food</i>	1.1%	0.5%	-1.1%	2.3%	1.8%	5.4%
<i>Ex Energy</i>	0.1%	0.3%	-0.5%	-0.5%	1.4%	0.8%
<i>Ex Food & Energy</i>	0.1%	0.1%	0.3%	2.0%	2.4%	1.5%
Consumer Food	0.1%	0.5%	-2.7%	-7.9%	-1.4%	-1.2%
Finished Energy Goods	4.0%	1.8%	-4.7%	3.6%	0.4%	17.8%
Capital Equipment	0.2%	0.1%	0.1%	1.9%	1.9%	1.4%
Intermediate Materials	0.9%	-0.1%	-0.3%	1.7%	0.7%	7.3%
<i>Ex Energy</i>	0.4%	0.1%	0.4%	3.8%	4.9%	4.7%
<i>Ex Food & Energy</i>	0.4%	0.1%	0.5%	4.3%	5.4%	4.9%
Crude Materials	1.2%	-2.7%	-9.2%	-36.2%	-27.1%	3.3%
<i>Ex Energy</i>	1.1%	-1.0%	-0.5%	-1.6%	2.5%	-0.1%
<i>Ex Food & Energy</i>	4.7%	0.8%	3.3%	41.2%	28.0%	16.0%

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.