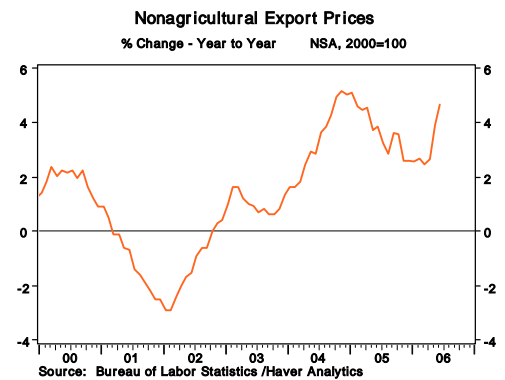
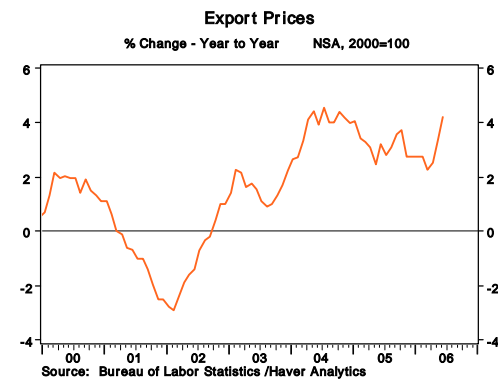
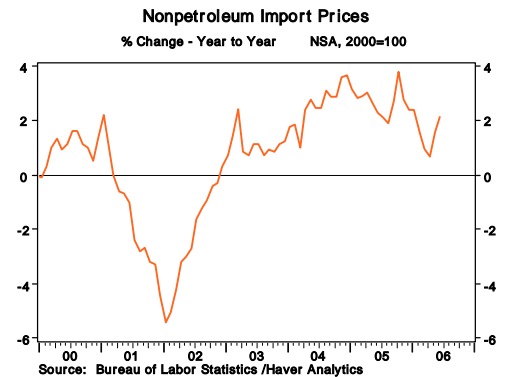
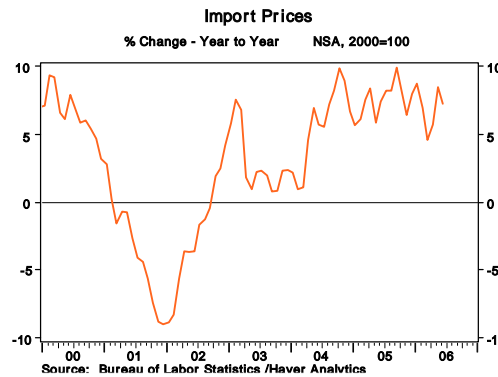


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JUNE IMPORT / EXPORT PRICES

- Import prices rose 0.1% in June after jumping 1.4% in May. Excluding a 1.4% decline in petroleum prices, import prices increased 0.4% last month. Excluding all fuels (which includes natural gas), import prices rose 0.7% in June.
- Export prices increased 0.8% in June and a 0.6% increase in May. Non-agricultural prices increased 0.6% last month. In the past year, non-agricultural export prices have risen 4.6%.

Implications: Inflationary pressures continue to build. Non-petroleum import prices rose 0.4% in June and non-ag export prices increased 0.6%. From late 2001 to late 2004, the dollar fell by roughly 34% against the Euro. This sharp decline in the dollar lifted import prices. In early 2005 and the first quarter of 2006, the dollar stabilized and import price inflation cooled. In the second quarter, the dollar weakened (the dollar fell 11.2% against the Euro in the Q2), which caused non-petroleum import prices to jump 4.7% at an annual rate in the past three months. Moreover, export prices (which are a good proxy for the PPI) have also surged. Non-ag export prices have increased 8.8% at an annual rate in the past three months (the highest three-month rate of increase since 1995), and 4.6% in the past year. With gold elevated and the dollar depressed, the most sensitive market signals suggest the Fed remains accommodative. We continue to expect a 6% fed funds rate by year end.



Import and Export Prices <i>Data not seasonally adjusted</i>	Jun-06	May-06	Apr-06	3-mo % ch. <i>annualized</i>	6-mo % ch. <i>annualized</i>	Yr-over-Yr <i>% Change</i>
All Imports	0.1%	1.7%	2.0%	16.6%	8.7%	7.2%
Non-Petroleum	0.4%	0.7%	0.1%	4.7%	1.0%	2.2%
Petroleum & Petroleum Products	-1.4%	6.1%	11.0%	81.8%	49.8%	32.6%
Capital Goods	0.3%	0.0%	-0.1%	0.9%	0.7%	-1.1%
Autos, Parts & Engines	0.2%	0.1%	0.1%	1.6%	0.6%	0.5%
All Exports	0.8%	0.6%	0.7%	9.1%	6.6%	4.2%
Non-agricultural	0.6%	0.7%	0.7%	8.8%	6.7%	4.6%
Agricultural	2.4%	0.6%	-0.5%	10.3%	4.5%	-0.2%
Capital Goods	0.0%	0.1%	0.3%	1.6%	1.9%	0.2%
Motor Vehicles	0.1%	0.1%	0.2%	1.5%	1.7%	1.4%

Source: Bureau of Labor Statistics

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