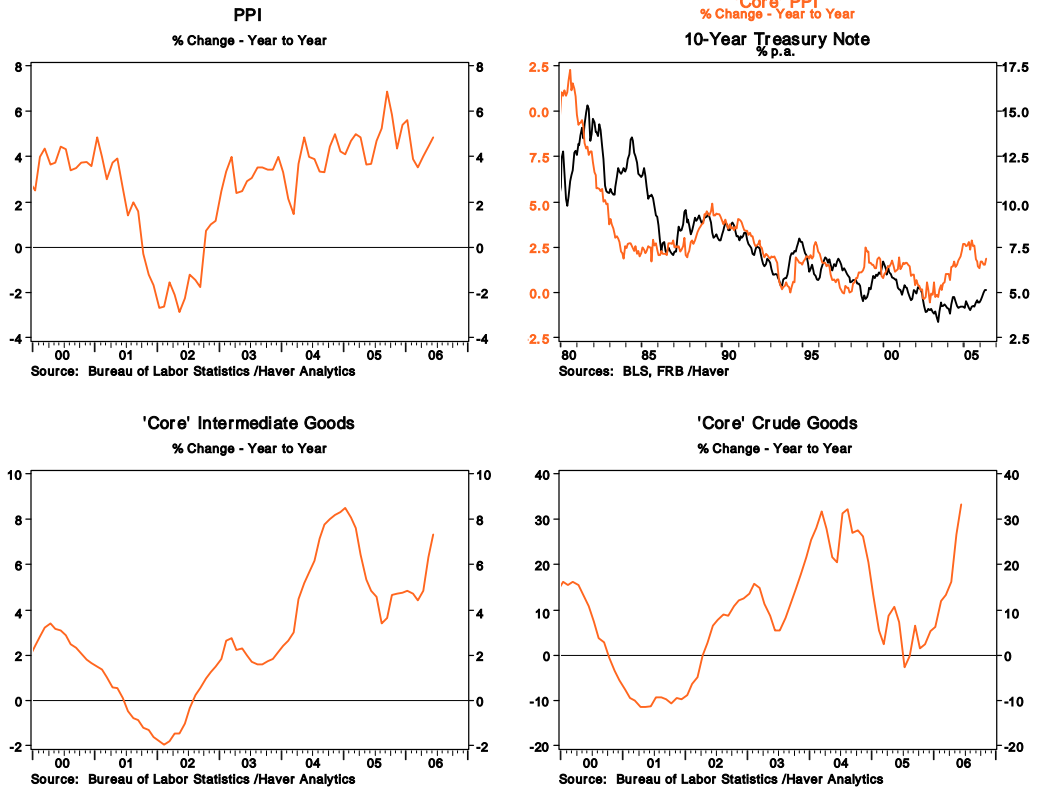


## JUNE PPI

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- The producer price index for finished goods (PPI) rose 0.5% in June after a 0.2% gain in May. Finished good prices are up 4.9% in the past year. Excluding food and energy, the “core” PPI increased 0.2% last month, while the YOY gain remained at 1.9%
- Intermediate goods prices increased 0.7%, while “core” intermediate prices jumped 0.8%. Crude prices fell 1.7% last month but “core” crude prices surged 1.7%. Pipeline price pressures remain elevated. In the past year, “core” intermediate prices have increased 7.2% and “core” crude prices have risen 33.7%.

**Implications:** In what is yet another sign that inflationary pressures continue to build, the PPI increased at a greater-than-expected 0.5% in June. While the 0.2% gain in the “core” PPI was in-line with consensus expectations, and some analysts took comfort in that news, we are not as sanguine. It seems that the floor for most broad measures of “core” inflation has moved up to 0.2%, a 2.4% annual rate, which is higher than the Fed’s implicit target of 1%-2%. That’s the floor, but in the first six months of 2006, the “core” PPI is up 3.1% at an annual rate – faster than the 2.3% annualized growth rate in 2005. In fact, 2006 has experienced the fastest January-June increase in the “core” PPI since 1991. Moreover, pipeline prices have accelerated again. The 12-month change in “core” crude prices increased to 33.7% in June, the fastest YOY gain in over 30 years. With pipeline pressures rising, gold elevated and real interest rates still low; there is every reason to think that inflation will accelerate throughout the rest of the year. As a result, despite 17 consecutive rate hikes, the Fed still has more work to do.



Producer Price Index <i>All data 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>% Ch.</i>
<b>Finished Goods</b>	<b>0.5%</b>	0.2%	0.9%	6.7%	2.1%	4.9%
<i>Ex Food</i>	<b>0.3%</b>	0.4%	1.1%	7.5%	3.4%	6.0%
<i>Ex Energy</i>	<b>0.5%</b>	0.1%	0.1%	2.8%	1.7%	1.5%
<i>Ex Food &amp; Energy</i>	<b>0.2%</b>	0.3%	0.1%	2.3%	3.1%	1.9%
<b>Consumer Food</b>	<b>1.4%</b>	-0.5%	0.1%	4.5%	-2.3%	0.6%
<b>Finished Energy Goods</b>	<b>0.7%</b>	0.4%	4.0%	22.3%	4.1%	19.1%
<b>Capital Equipment</b>	<b>0.3%</b>	0.3%	0.2%	3.0%	3.1%	1.8%
<b>Intermediate Materials</b>	<b>0.7%</b>	1.1%	0.9%	11.1%	6.6%	9.3%
<i>Ex Energy</i>	<b>0.8%</b>	1.1%	0.4%	9.4%	7.3%	6.9%
<i>Ex Food &amp; Energy</i>	<b>0.8%</b>	1.1%	0.4%	9.8%	7.7%	7.2%
<b>Crude Materials</b>	<b>-1.7%</b>	2.0%	1.2%	5.7%	-19.1%	8.7%
<i>Ex Energy</i>	<b>3.4%</b>	1.4%	1.1%	26.2%	4.5%	9.7%
<i>Ex Food &amp; Energy</i>	<b>1.7%</b>	6.2%	4.7%	63.1%	37.1%	33.7%

Source: Bureau of Labor Statistics

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