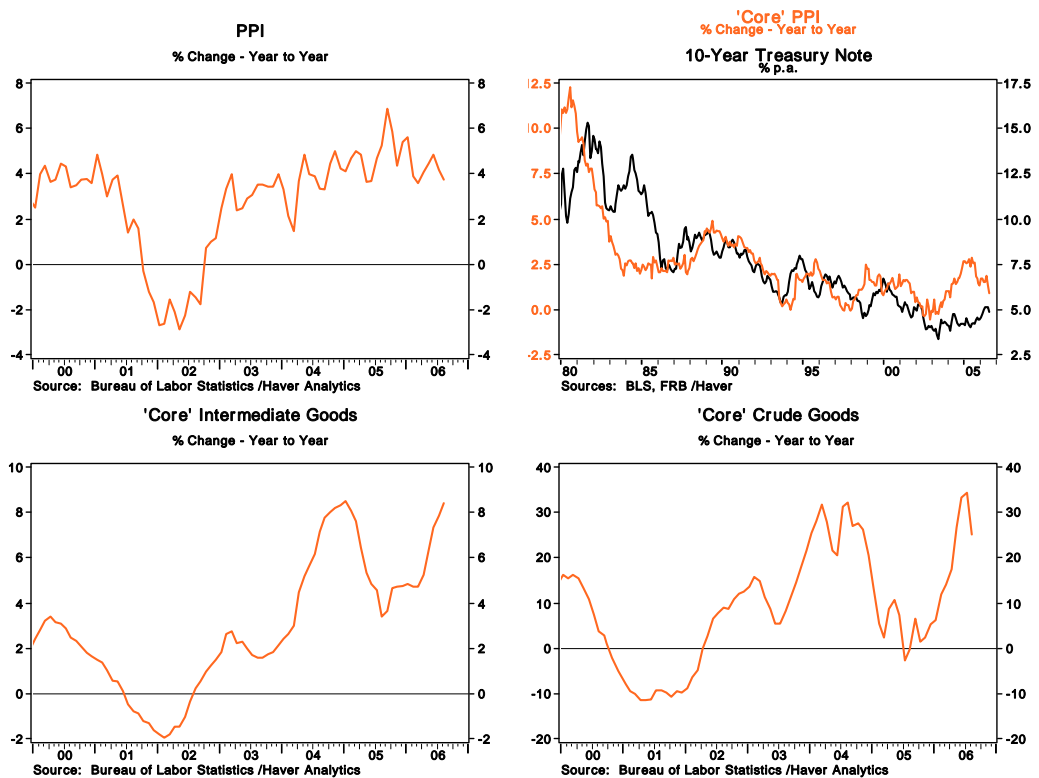


AUGUST PPI

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- The producer price index for finished goods (PPI) rose a less-than-expected 0.1% in August after an identical gain in July. Finished good prices are up 3.7% in the past year. Excluding food and energy, the “core” PPI fell 0.4% last month and the YOY gain retreated to 0.9%. This is the slowest YOY gain since the 12-months ending in March 2004.
- Intermediate goods prices, both at the headline and “core” level, rose 0.4% in August. Crude prices rose 2.2% last month but “core” crude prices slid 2.8%. Over the past year, “core” intermediate prices have increased 8.3% and “core” crude prices have risen 25.2%.

Implications: Producer prices were tame in August, with the “core” PPI registering the largest one-month decline since April 2003. It seems that a perfect storm kept producer prices in check during August. Rising inventory levels most likely tempered producer willingness to raise prices, the speculative spike in energy prices gave way (see news about Amaranth), a slowing housing market pulled down building costs, and productivity continues to soar. Nonetheless, we are not out of the woods yet. In the past year, “core” intermediate prices are up 8.3% and “core” crude prices are up 25.2%. In fact, “core” crude prices are up 94.6% in the past 5-years, an unprecedented increase. Moreover, even though commodity prices have pulled back from their speculative tops, gold is still 128% above its 2001 lows. This suggests that inflationary pressures have yet to dissipate. Nonetheless, today’s data will harden the Fed’s “pause” mentality and rate hikes at tomorrow’s meeting and in October are likely off the table.



Producer Price Index <i>All data seasonally adjusted</i>	Aug-06	Jul-06	Jun-06	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr over Yr <i>% Ch.</i>
Finished Goods	0.1%	0.1%	0.5%	2.8%	4.5%	3.7%
<i>Ex Food</i>	-0.2%	0.2%	0.3%	1.0%	4.4%	4.0%
<i>Ex Energy</i>	0.1%	-0.3%	0.5%	1.3%	1.4%	1.4%
<i>Ex Food & Energy</i>	-0.4%	-0.3%	0.2%	-1.8%	0.3%	0.9%
Consumer Food	1.4%	-0.3%	1.4%	10.8%	5.0%	2.7%
Finished Energy Goods	0.3%	1.3%	0.7%	9.7%	17.7%	13.1%
Capital Equipment	-0.3%	-0.2%	0.3%	-0.8%	0.7%	1.0%
Intermediate Materials	0.4%	0.5%	0.7%	6.7%	7.6%	8.7%
<i>Ex Energy</i>	0.3%	0.7%	0.8%	7.6%	7.2%	8.0%
<i>Ex Food & Energy</i>	0.4%	0.7%	0.8%	7.8%	7.6%	8.3%
Crude Materials	2.2%	3.1%	-1.7%	15.4%	8.9%	5.4%
<i>Ex Energy</i>	-1.2%	1.6%	3.4%	16.1%	11.0%	9.3%
<i>Ex Food & Energy</i>	-2.8%	1.3%	1.7%	0.8%	25.9%	25.2%

Source: Bureau of Labor Statistics

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