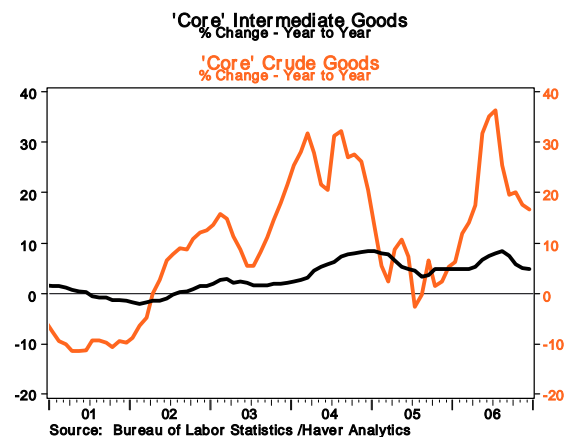
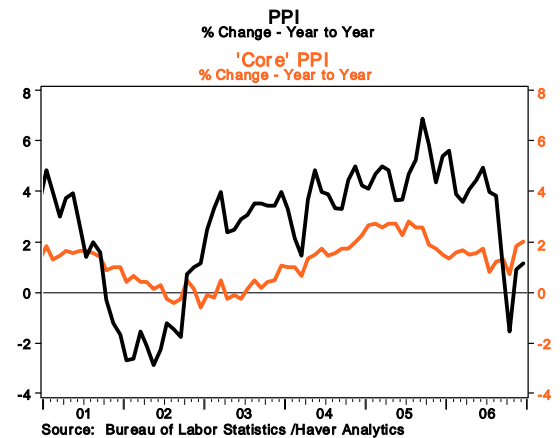


DECEMBER PPI

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- The Producer Price Index (PPI) increased 0.9% in December after a huge 2.0% increase in November. The consensus expected an increase of 0.5%. The PPI is up 1.2% versus a year ago but up at a 5.1% annual rate in the past three months.
- Much of the increase in December was due to a 2.5% increase in energy prices. The “core” PPI was up 0.2%, although this was also higher than the consensus forecast of 0.1%.
- Consumer goods prices increased 1.2% in December and are up at a 5.9% annual rate in the past three months. Capital equipment prices increased 0.2% and are up at a 3.0% rate in the past three months.
- “Core” intermediate prices dropped 0.1% in December and are down at a 1.4% rate in the past three months but are still up 4.7% versus a year ago. “Core” crude prices increased 1.0% in December and are up 16.8% versus a year ago.

Implications: With both the overall PPI and “core” PPI coming in higher than expected, the market continues to ratchet down its expectations of interest rate cuts by the Federal Reserve. It is becoming clearer and clearer that inflation will continue to be a problem in 2007, a position First Trust has held all along. The Fed cannot afford to be complacent about the imposing risk of inflation.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-06	Nov-06	Oct-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.9%	2.0%	-1.6%	5.1%	0.1%	1.2%
Ex Food and Energy	0.2%	1.3%	-0.9%	2.3%	1.3%	2.0%
Food	1.7%	0.1%	-0.8%	4.1%	6.3%	1.7%
Energy	2.5%	6.1%	-5.0%	14.4%	-8.7%	-1.7%
Consumer Goods	1.2%	2.2%	-1.9%	5.9%	-0.5%	0.8%
Capital Equipment	0.2%	1.4%	-0.9%	3.0%	1.9%	2.4%
Intermediate Goods	0.5%	0.7%	-1.1%	0.2%	-1.2%	2.8%
Ex Food & Energy	-0.1%	-0.3%	0.0%	-1.4%	1.3%	4.7%
Energy	2.3%	4.2%	-5.5%	3.4%	-12.4%	-4.1%
Crude Goods	2.9%	15.7%	-10.5%	28.6%	17.6%	-2.4%
Ex Food & Energy	1.0%	0.5%	-1.3%	0.8%	-3.4%	16.8%
Energy	5.5%	35.8%	-23.5%	44.6%	25.3%	-11.4%

Source: Bureau of Labor Statistics