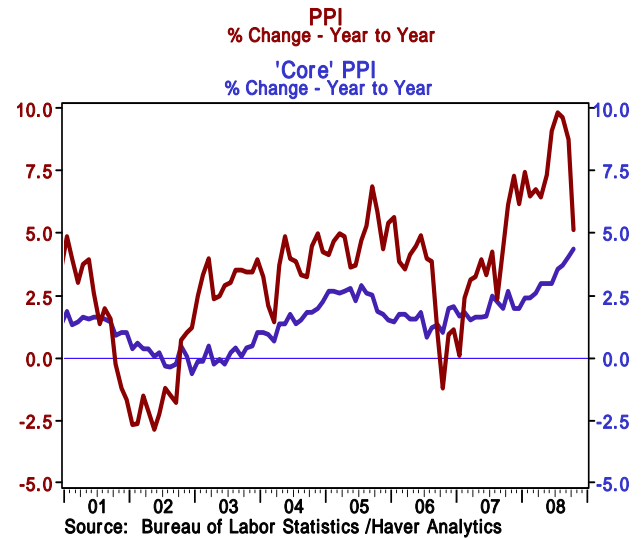


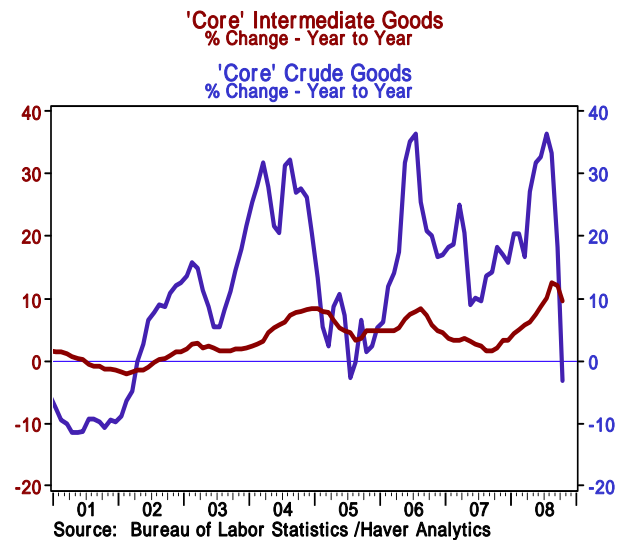
OCTOBER PPI

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- The Producer Price Index (PPI) declined 2.8% in October, a much deeper plunge than the consensus expected. The PPI is up 5.2% in the past twelve months.
- Almost all the drop in the PPI was due to energy, which fell 12.8% in October. The “core” PPI, which excludes food and energy, increased 0.4% in October and is up 4.4% versus last year, the most since 1989.
- Consumer goods prices declined 3.7% in October but are up 5.4% versus last year. Capital equipment prices rose 0.5% in October and are up 4.1% versus a year ago, the most since 1989.
- Intermediate goods prices fell 3.9% in October but are up 10.2% in the past year. Crude prices plummeted 18.6% in October and are down 1.4% versus last year.



Implications: Rapidly dropping energy prices generated massive declines in producer prices in October, with finished, intermediate, and crude prices all falling at a record pace. With energy prices continuing to drop in November, look for more of the same next month, as the slowdown in the velocity of money – the speed with which money changes hands in the economy – brings down both real GDP growth and inflation. However, “core” inflation for the past year (finished goods excluding food and energy) is up the most in almost 20 years, as are prices for capital equipment. These figures suggest the underlying problem with inflation has not gone away, and that once velocity recovers headline inflation will move back up too. Before recent months, some analysts were obsessively focusing on the core rate to argue that inflation was low even though headline inflation was high. Notice that some of these analysts are now saying inflation is low due to the headline number even though core inflation is moving up. Although core intermediate and core crude prices experienced record declines in October, these categories of materials are closely tied to the commodity prices that have fallen in-line with energy prices and do not necessarily signal an oncoming drop in core prices for finished goods.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Oct-08	Sep-08	Aug-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-2.8%	-0.4%	-0.9%	-15.1%	0.5%	5.2%
<i>Ex Food and Energy</i>	0.4%	0.4%	0.2%	4.4%	4.6%	4.4%
Food	-0.2%	0.2%	0.3%	1.3%	5.8%	6.6%
Energy	-12.8%	-2.9%	-4.6%	-57.3%	-14.4%	5.5%
Consumer Goods	-3.7%	-0.6%	-1.2%	-19.8%	-0.6%	5.4%
Capital Equipment	0.5%	0.5%	0.1%	4.2%	4.5%	4.1%
Intermediate Goods	-3.9%	-1.2%	-1.0%	-21.6%	2.6%	10.2%
<i>Ex Food & Energy</i>	-1.7%	-0.3%	1.7%	-1.7%	9.1%	9.7%
Energy	-10.6%	-3.8%	-8.2%	-61.3%	-15.7%	10.9%
Crude Goods	-18.6%	-7.9%	-11.9%	-81.0%	-42.2%	-1.4%
<i>Ex Food & Energy</i>	-17.0%	-9.4%	-1.9%	-70.3%	-38.8%	-3.1%
Energy	-24.9%	-11.7%	-19.4%	-91.9%	-54.1%	-1.7%

Source: Bureau of Labor Statistics

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