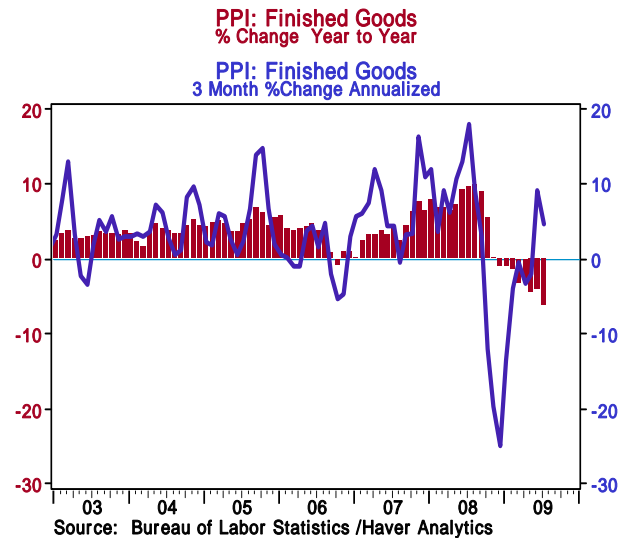


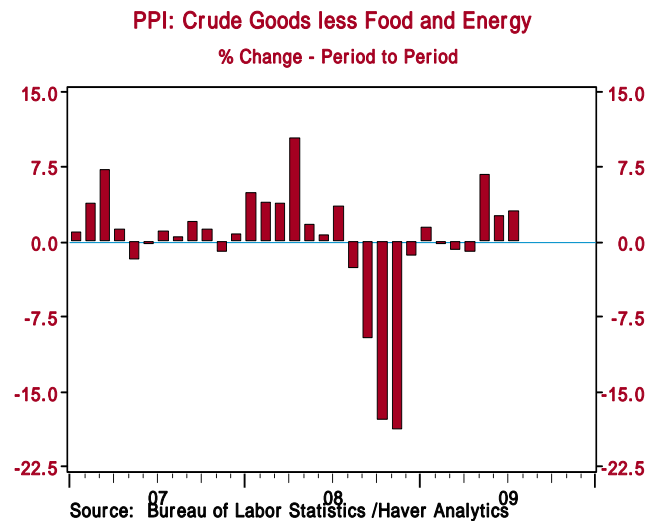
# JULY PPI

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- The Producer Price Index (PPI) declined 0.9% in July versus a consensus expected -0.3%. The PPI is down 6.8% versus a year ago, but up at a 4.6% annual rate in the past three months.
- The July decrease in the PPI was mostly due to energy, which fell 2.4%, and food, which declined 1.5%. The “core” PPI, which excludes food and energy, decreased 0.1%, a slight decline after last month’s large gain.
- Consumer goods prices declined 1.1% in July but are up at a 5.8% annual rate in the past three months. Capital equipment prices declined 0.2% in July but are up at a 0.8% rate in the past three months.
- Intermediate goods prices decreased 0.2% in July but are up at an 8.1% annual rate in the past three months. Crude prices dropped 4.5% in July, but a 4.6% increase in June and a 3.6% increase in May puts the 3-month gain at 14.8% annualized.



**Implications:** Falling commodity prices took a huge bite out of producer prices in July, pushing them down 0.9%. However, we already know that commodity prices are higher in August, which means overall producer prices will bounce back next month, renewing what we expect to be a generally upward trend. Although “core” producer prices fell 0.1% in July, this follows an unusually large 0.5% gain in June. Higher inflation is evident in core producer prices deeper into the production chain. Core intermediate prices increased 0.2% in July, the second straight gain; core crude prices rose 2.9%, the third straight gain. These higher core prices show that monetary velocity is rebounding and loose monetary policy is having an impact on the economy. Despite this, the Federal Reserve is likely to remain incredibly loose at least through the end of the year, which means the underlying trend of higher inflation will continue.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jul-09	Jun-09	May-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	-0.9%	1.8%	0.2%	4.6%	0.6%	-6.8%
<i>Ex Food and Energy</i>	-0.1%	0.5%	-0.1%	1.4%	1.3%	2.6%
<b>Food</b>	-1.5%	1.1%	-1.6%	-7.7%	-5.5%	-4.1%
<b>Energy</b>	-2.4%	6.6%	2.9%	31.7%	4.5%	-29.6%
<b>Consumer Goods</b>	-1.1%	2.2%	0.3%	5.8%	0.7%	-8.9%
<i>Capital Equipment</i>	-0.2%	0.5%	-0.1%	0.8%	0.1%	1.9%
<b>Intermediate Goods</b>	-0.2%	1.9%	0.3%	8.1%	-1.6%	-15.0%
<i>Ex Food &amp; Energy</i>	0.2%	0.4%	-0.2%	1.4%	-2.8%	-8.2%
<b>Energy</b>	-1.4%	8.9%	2.0%	44.0%	3.8%	-34.5%
<b>Crude Goods</b>	-4.5%	4.6%	3.6%	14.8%	-0.9%	-45.0%
<i>Ex Food &amp; Energy</i>	2.9%	2.6%	6.7%	61.3%	21.2%	-35.7%
<b>Energy</b>	-6.2%	10.9%	5.3%	44.3%	-0.1%	-59.6%

Source: Bureau of Labor Statistics

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