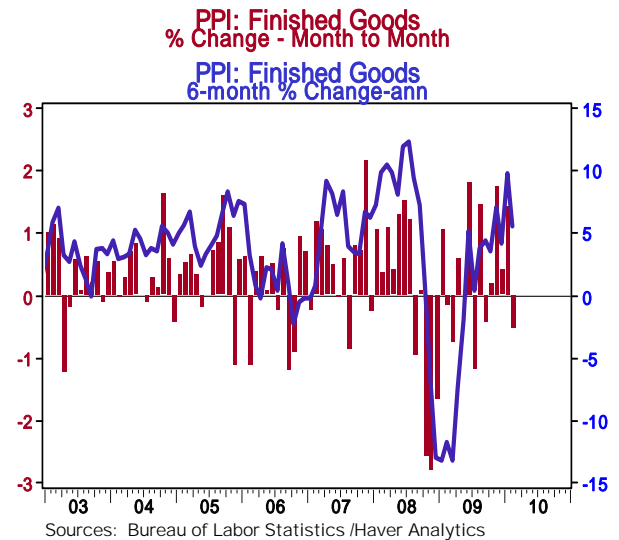


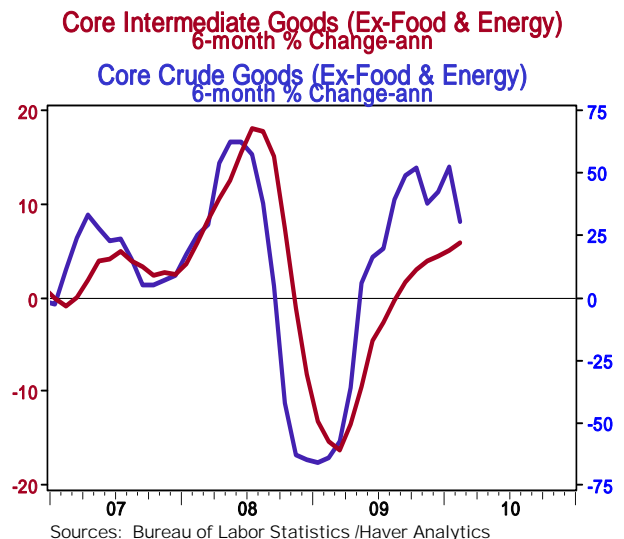
## FEBRUARY PPI

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- The Producer Price Index (PPI) declined 0.6% in February versus a consensus expected -0.2%. The PPI is up 4.4% versus a year ago, and is up at a 5.5% annual rate in the past six months.
- The February decline in the PPI could all be attributed to energy, which fell 2.9%. Food prices increased 0.4%. The “core” PPI, which excludes food and energy, was up 0.1%.
- Consumer goods prices declined -0.7% in February but are up at a 7.7% annual rate in the past six months. Capital equipment prices declined 0.1% in February and are down at a 0.4% rate in the past six months.
- Intermediate goods prices increased 0.1% in February and are up at an 8.6% annual rate in the past six months. Crude prices fell 3.5% in February but are up at a 35.0% rate in the past six months.



**Implications:** Producer price inflation took a breather in February but will come back with a vengeance next month. The decline in producer prices in February was primarily the result of a big drop in energy prices that we all know has been reversed in March. As a result, the Federal Reserve is not off the hook. Even without the likely surge in March, the underlying trend in producer prices is already signaling danger. Wholesale prices are up at a 5.5% annual rate in the past six months. And there is more price pressure up the production pipeline. Intermediate goods are up at an 8.6% annual rate in the past six months, while crude goods are up at a 35% rate. Although “core” prices (which exclude food and energy) are up at only a 0.6% rate in the past six months, core intermediate prices are up at a 5.9% rate and core crude prices are up at a 31% rate. As the economy keeps picking up steam and the V-shaped recovery continues, zero percent interest rates from the Fed are increasingly unwarranted. Without a change in policy, the Fed could be making another serious policy mistake, similar to the 1% interest rate mistake after the last recession.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-10	Jan-10	Dec-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	-0.6%	1.4%	0.4%	5.1%	5.5%	4.4%
<i>Ex Food and Energy</i>	0.1%	0.3%	0.0%	1.6%	0.6%	1.0%
<i>Food</i>	0.4%	0.4%	1.3%	8.6%	8.3%	3.4%
<i>Energy</i>	-2.9%	5.1%	0.7%	11.7%	18.0%	17.7%
<b>Consumer Goods</b>	-0.7%	1.8%	0.5%	6.7%	7.7%	5.9%
<i>Capital Equipment</i>	-0.1%	0.3%	-0.1%	0.5%	-0.4%	0.1%
<b>Intermediate Goods</b>	0.1%	1.7%	0.6%	9.9%	8.6%	5.8%
<i>Ex Food &amp; Energy</i>	0.9%	0.5%	0.5%	7.8%	5.9%	2.8%
<i>Energy</i>	-2.7%	6.9%	0.5%	19.8%	19.9%	19.6%
<b>Crude Goods</b>	-3.5%	9.6%	0.8%	28.9%	35.0%	28.6%
<i>Ex Food &amp; Energy</i>	-0.6%	6.6%	4.5%	50.4%	30.7%	34.9%
<i>Energy</i>	-6.4%	16.8%	-2.8%	28.0%	50.0%	48.7%

Source: Bureau of Labor Statistics

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