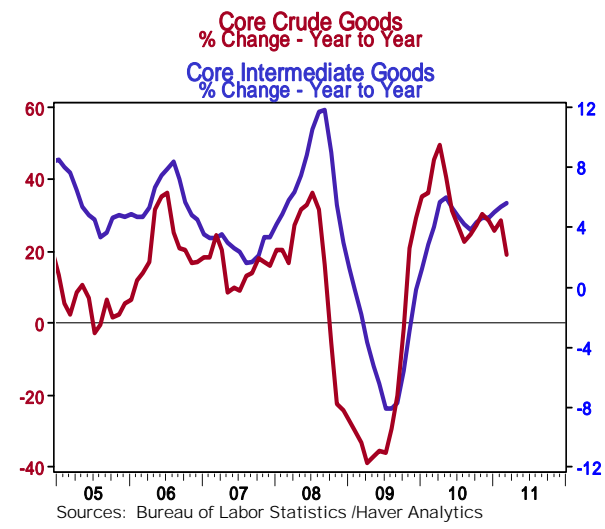
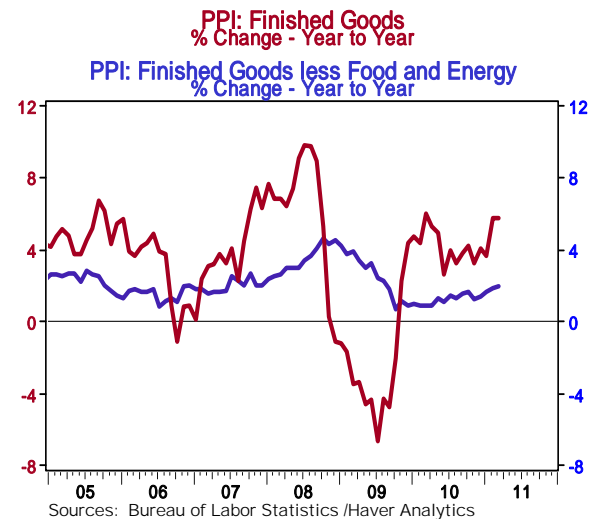


MARCH PPI

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- The Producer Price Index (PPI) increased 0.7% in March, falling short of the consensus expected rise of 1.0%. Producer prices are up 5.8% versus a year ago.
- The March gain in the PPI was led by energy prices, which increased 2.6%. Food prices declined 0.2%. The “core” PPI, which excludes food and energy, increased 0.3%, higher than the consensus expected rise of 0.2%.
- Consumer goods prices rose 0.8% in March and are up 7.3% versus last year. Capital equipment prices were up 0.3% in March and are up 1.0% in the past year.
- Core intermediate goods prices increased 0.9% in March and are up 5.6% versus a year ago. Core crude prices fell 2.3% in March but are up 19.2% in the past twelve months.

Implications: The inflation problem at the producer level continues to get worse. While headline producer price inflation fell short of consensus expectations in March, we would not call an increase of 0.7% good news. Prices are still up 5.8% in the past year and accelerating upward. In the past six months producer prices are up at a 10.9% annual rate; in the past three months they’re up at a 13% rate. Most of the gain in March was due to energy prices. But, while the Federal Reserve can still claim core inflation is low for consumers, core producer prices are accelerating, up 0.3% in March and up at a 4.2% annual rate in the past three months. Further up the production pipeline, core intermediate prices increased 0.9% in March and are up at a 9.8% annual pace in the past six months; core crude prices fell 2.3% in March but are still up at a 29.5% rate in the past six months. Based on these inflation signals and the current state of the economy, the Fed’s monetary policy is way too loose. In other news this morning, new claims for unemployment insurance rose 27,000 last week to 412,000. Reports suggest the gain was largely due to how states manage extended benefits at the end of each quarter. The four-week moving average rose to 396,000. Continuing claims for regular benefits declined 58,000 to 3.68 million.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Mar-11	Feb-11	Jan-11	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.7%	1.6%	0.8%	13.0%	10.9%	5.8%
<i>Ex Food and Energy</i>	0.3%	0.2%	0.5%	4.2%	2.0%	1.9%
Food	-0.2%	3.9%	0.3%	16.9%	12.9%	4.5%
Energy	2.6%	3.3%	1.8%	35.2%	36.6%	17.4%
Consumer Goods	0.8%	2.1%	0.9%	16.5%	14.7%	7.3%
<i>Capital Equipment</i>	0.3%	0.1%	0.3%	2.8%	0.8%	1.0%
Intermediate Goods	1.5%	2.0%	1.1%	20.0%	16.6%	8.9%
<i>Ex Food & Energy</i>	0.9%	1.1%	1.0%	13.0%	9.8%	5.6%
Energy	2.9%	4.3%	1.8%	42.8%	39.2%	18.6%
Crude Goods	-0.5%	3.4%	3.3%	27.3%	44.1%	16.5%
<i>Ex Food & Energy</i>	-2.3%	2.3%	4.0%	16.6%	29.5%	19.2%
Energy	-0.5%	0.9%	1.9%	9.9%	61.3%	6.1%

Source: Bureau of Labor Statistics

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