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Data Watch

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FEBRUARY PPI

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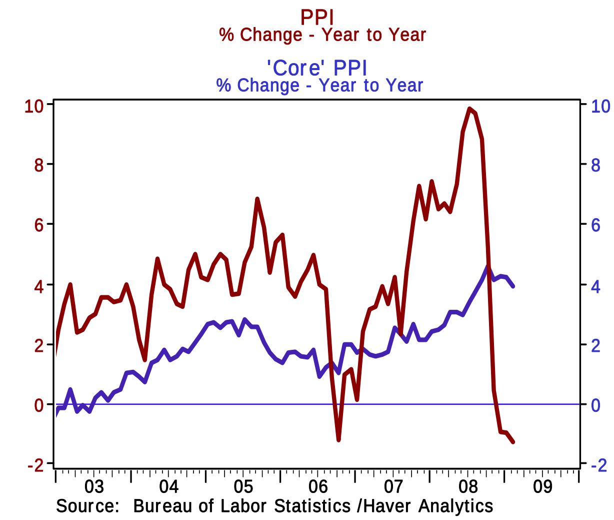
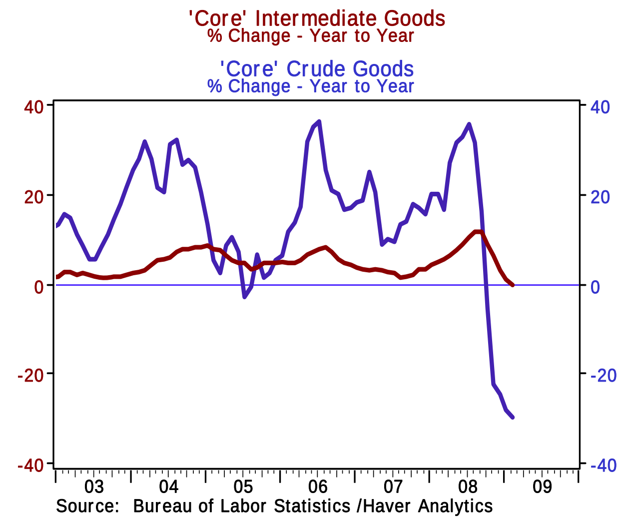
- The Producer Price Index (PPI) increased 0.1% in February versus a consensus expected increase of 0.3%. The PPI is down 1.3% versus a year ago.
- The overall increase in the PPI was due to energy, which increased 1.3%. Food prices declined 1.6%. The "core" PPI, which excludes food and energy, increased 0.2%, due to a 0.3% increase in consumer goods excluding food.
- Consumer goods prices increased 0.1% in February but are down 2.8% versus last year. Capital equipment prices rose 0.1% in February and are up 3.7% versus a year ago.
- Intermediate goods prices fell 0.9% in February and are down 5.6% in the past year. Crude prices fell 4.5% in February and are down 34.7% versus last year.





Implications: Today's producer price data throw freezing cold water on the theory that the US is in a vicious downward deflationary spiral. Producer prices fell at a 24.9% annual rate in the last three months of 2008 but have since gone up two months in a row. "Core" producer prices are up three months in a row and are 4% above a year ago. This is a clear sign, along with higher retail sales outside the auto sector, that monetary velocity has started to pick back up, demand is reviving, and the most intense period of the economic contraction is behind us. The underlying inflation problem that preceded the collapse in monetary velocity has not gone away and a resurgence of inflation will follow the eventual acceleration in economic growth later this year. Although some analysts may be concerened about declining "core" intermediate and crude prices, these indicators reflect relatively weak global demand for commodities. With a velocity-related slowdown centered in the US, the US consumer is a leading signal of economic recovery, which means we are in a rare situation where finished goods prices should lead prices for intermediate and crude materials, even though the latter are further back in the supply chain.

Producer Price Index *All Data Seasonally Adjusted*	Feb-09	Jan-09	Dec-08	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	**0.1%**	0.8%	-1.9%	-3.7%	-11.9%	-1.3%
Ex Food and Energy	**0.2%**	0.4%	0.2%	3.6%	3.5%	4.0%
Food	**-1.6%**	-0.4%	-1.4%	-12.6%	-6.2%	0.9%
Energy	**1.3%**	3.7%	-9.1%	-16.9%	-48.2%	-19.3%
Consumer Goods	**0.1%**	1.0%	-2.5%	-5.7%	-16.0%	-2.8%
Capital Equipment	**0.1%**	0.5%	0.1%	2.8%	3.3%	3.7%
Intermediate Goods	**-0.9%**	-0.7%	-4.2%	-21.2%	-25.7%	-5.6%
Ex Food & Energy	**-0.6%**	-1.1%	-2.9%	-16.8%	-15.3%	-0.1%
Energy	**-2.0%**	1.5%	-9.8%	-35.4%	-53.5%	-23.1%
Crude Goods	**-4.5%**	-2.9%	-5.3%	-40.7%	-65.4%	-34.7%
Ex Food & Energy	**1.5%**	0.1%	-2.2%	-2.4%	-64.0%	-29.4%
Energy	**-8.5%**	-8.1%	-5.9%	-60.9%	-80.3%	-48.2%

Source: Bureau of Labor Statistics