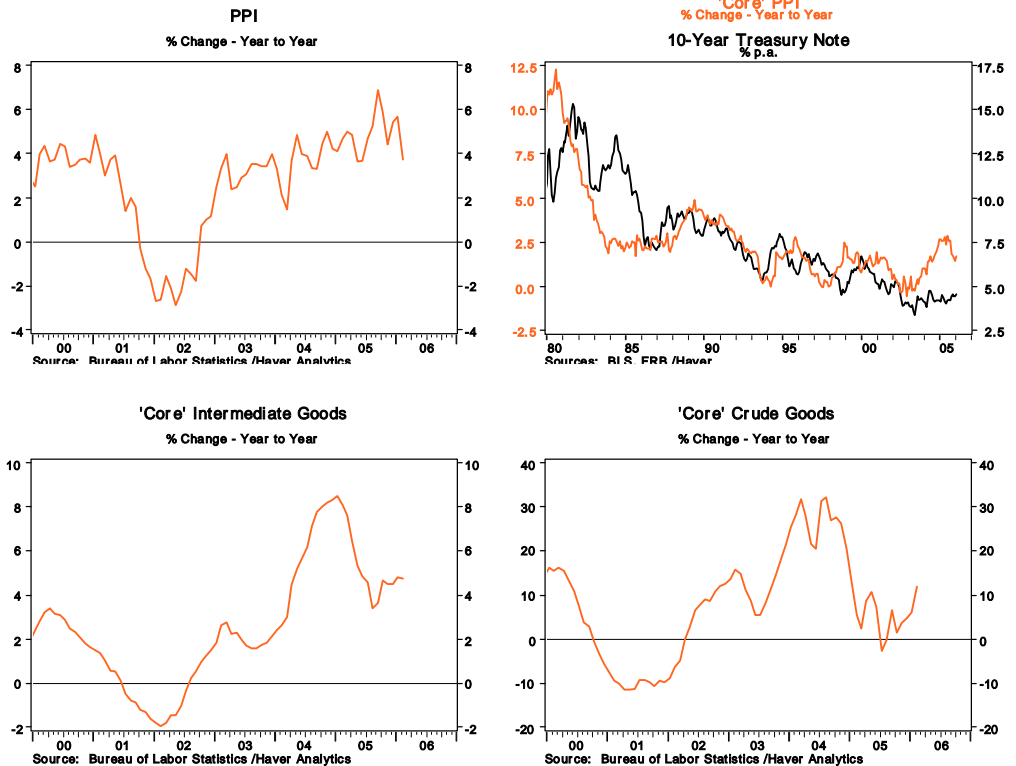


FEBRUARY PPI

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- The producer price index for finished goods (PPI) fell 1.4% in February after a 0.2% gain in January. Finished good prices are up 3.7% from a year ago. Excluding food and energy, the “core” PPI increased 0.3% following a 0.4% gain in January. The “core” PPI is up 3.1% at an annual rate in the last three months and 1.7% in the past year.
- Intermediate goods prices slid 0.3%, while “core” intermediate prices increased 0.5%. Crude prices fell 9.2% last month, while “core” crude prices increased 3.3%. In the past year, “core” intermediate prices have increased 4.8% and “core” crude prices have risen 11.9%.

Implications: Falling energy and food prices pulled overall producer prices down in February. However, “core” producer prices increased throughout the production pipeline. The YOY gain in the “core” PPI accelerated to 1.7% last month versus 1.5% in January. This is a significant increase from the deflationary low of -0.5% in December 2002. Falling energy prices holding back overall inflation is likely to be a consistent theme in 2006 as oil prices pull back from their elevated levels. While we wish this meant the threat from inflation was over, high energy prices do not cause inflation. Inflation is a monetary phenomenon and the Fed has a monopoly on the supply of money. With past Fed accommodation still working its way through the economy, real (inflation adjusted) interest rates still low and commodity prices elevated, the threat from inflation has not passed. Chairman Bernanke’s comments yesterday hinted that the Fed has yet to reach neutral. We continue to look for a funds rate above 5% by year-end.



Producer Price Index <i>All data seasonally adjusted</i>	Feb-06	Jan-06	Dec-05	3-mo % Ch <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr over Yr <i>% Ch.</i>
Finished Goods	-1.4%	0.2%	0.6%	-2.0%	2.6%	3.7%
<i>Ex Food</i>	-1.1%	0.2%	0.6%	-0.8%	3.2%	5.1%
<i>Ex Energy</i>	-0.5%	0.3%	0.3%	0.3%	1.2%	1.0%
Ex Food & Energy	0.3%	0.4%	0.1%	3.1%	1.7%	1.7%
Consumer Food	-2.7%	0.2%	0.8%	-6.7%	-0.1%	-1.3%
Finished Energy Goods	-4.7%	0.0%	2.0%	-10.8%	8.1%	16.9%
Capital Equipment	0.1%	0.3%	0.1%	2.5%	1.2%	1.5%
Intermediate Materials	-0.3%	1.2%	0.1%	4.1%	10.3%	8.2%
<i>Ex Energy</i>	0.4%	1.0%	0.3%	7.1%	8.9%	4.5%
<i>Ex Food & Energy</i>	0.5%	1.0%	0.3%	7.6%	9.3%	4.8%
Crude Materials	-9.2%	-0.5%	-2.3%	-39.3%	2.6%	12.8%
<i>Ex Energy</i>	-0.5%	-1.9%	1.8%	-2.7%	7.6%	1.9%
<i>Ex Food & Energy</i>	3.3%	-0.1%	0.5%	15.5%	24.5%	11.9%

Source: Bureau of Labor Statistics

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