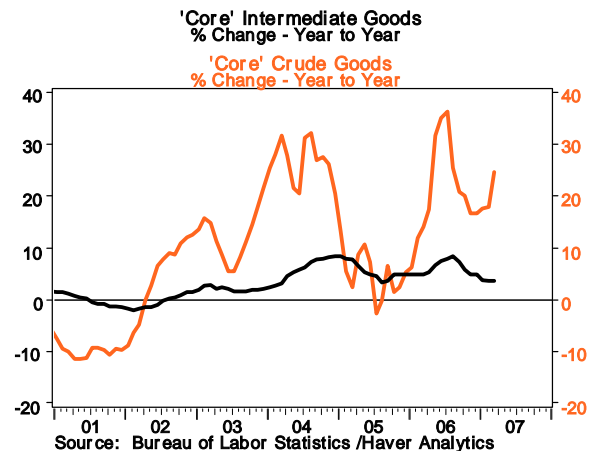
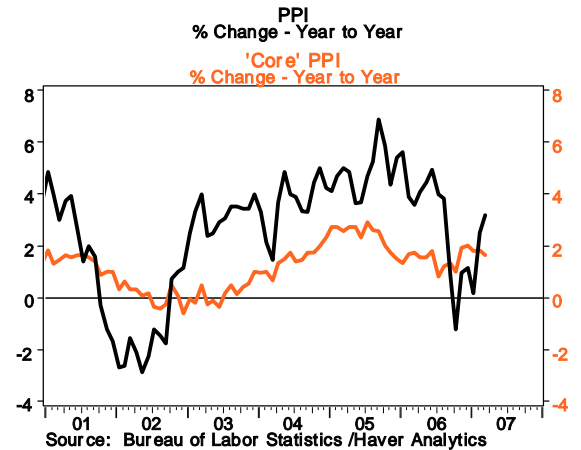


## MARCH PPI

Chief Economist - Brian S. Wesbury  
Senior Economist - Robert Stein, CFA  
Economic Research Analyst - Trevor D. Scott

- The Producer Price Index (PPI) increased 1.0% in March versus a consensus expected gain of 0.7%. The PPI is up 3.1% in the past twelve months and has climbed at an annual rate of 6.9% in the past three months.
- All of the PPI increase in March was due to food and energy prices, which rose 1.4% and 3.6%, respectively. The core PPI was unchanged versus a consensus expected 0.2% gain. However, the core PPI is up 1.6% at an annual rate in the past year and 2.3% over three months.
- Consumer goods prices increased 1.4% in March and are up at an annual rate of 8.6% in the past three months. Excluding energy, consumer goods prices increased 0.5% and rose 7.8% at an annual rate in the first quarter, the fastest quarterly growth rate since 1988. Capital equipment prices fell 0.1%, but are up 2.0% in the past year.
- Core intermediate goods prices (ex-food and energy) increased 0.2% in March and are up 3.5% versus last year. Core crude prices increased 7.7%, are up at a 59.8% annual rate the past three months, and are up 24.7% versus a year ago.

**Implications:** Unlike some analysts, we do not take solace in today's benign core PPI data. Inflation is still a significant problem. As we said above, consumer goods prices excluding energy rose 7.8% at an annual rate in the first quarter, the largest gain in over 18 years. Meanwhile in March, core intermediate prices rose 0.2% and core crude prices rose 7.7%. We continue to believe the next rate move by the Fed is likely to be up, not down.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Mar-07	Feb-07	Jan-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	<b>1.0%</b>	1.3%	-0.6%	6.9%	5.2%	3.1%
<b>Ex Food and Energy</b>	<b>0.0%</b>	0.4%	0.2%	2.3%	2.3%	1.6%
<b>Food</b>	<b>1.4%</b>	1.9%	1.1%	18.7%	10.9%	7.9%
<b>Energy</b>	<b>3.6%</b>	3.5%	-4.6%	9.4%	8.0%	2.8%
<b>Consumer Goods</b>	<b>1.4%</b>	1.6%	-0.9%	8.6%	6.1%	3.5%
<b>Capital Equipment</b>	<b>-0.1%</b>	0.3%	0.2%	1.9%	2.3%	2.0%
<b>Intermediate Goods</b>	<b>1.0%</b>	1.1%	-0.7%	6.0%	3.3%	3.4%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.0%	1.7%	0.4%	3.5%
<b>Energy</b>	<b>4.1%</b>	4.5%	-3.8%	19.7%	11.2%	1.9%
<b>Crude Goods</b>	<b>3.2%</b>	8.9%	-6.3%	23.5%	26.2%	15.7%
<b>Ex Food &amp; Energy</b>	<b>7.7%</b>	2.7%	1.6%	59.8%	21.9%	24.7%
<b>Energy</b>	<b>1.7%</b>	13.7%	-16.2%	-11.6%	16.7%	5.5%

Source: Bureau of Labor Statistics