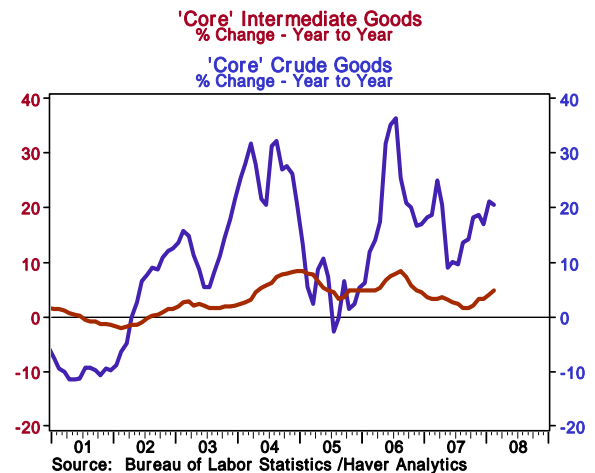
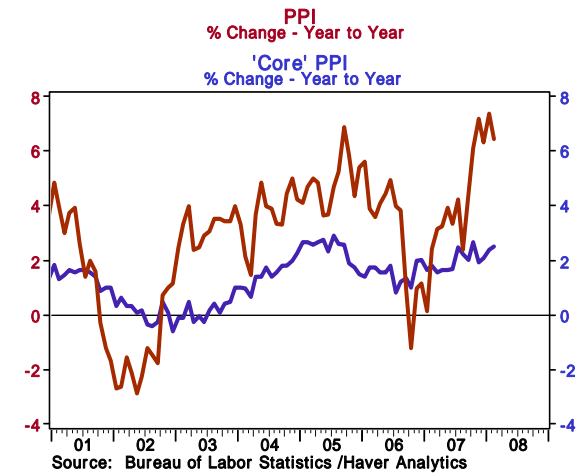


FEBRUARY PPI

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- The Producer Price Index (PPI) increased 0.3% in February versus a consensus expected rise of 0.4%. The PPI is up 6.8% in the past twelve months (seasonally adjusted).
- The increase in the PPI was not concentrated in any one sector. Energy prices increased 0.8% but food prices declined 0.5%. The “core” PPI, which excludes food and energy prices, was up 0.5%, the largest increase in 15 months and much higher than the consensus expected increase of 0.2%. The core PPI is up 2.5% in the past year (seasonally adjusted).
- Consumer goods prices increased 0.3% in February and are up 7.8% versus a year ago. Capital equipment prices increased 0.5% in February and are up 1.9% in the past year. In the past two months, equipment prices are up at a 5.7% annual rate, the second largest increase since 1989.
- Intermediate goods prices rose 0.8% in February and are up 9.1% versus last year. Crude prices increased 3.7% and are up 24.6% versus a year ago.

Implications: The more inflation data we get the worse it looks. Although the headline PPI climbed less than expected in February, the increases are starting to creep into the core and, given the large increase in energy prices so far in March, the headline PPI will spike upward next month. Despite these figures, the Federal Reserve is likely to reduce rates by 100 basis points this afternoon, down to 2%, lower than any rate that prevailed between 1962 and late-2001. One former Fed Governor has made the argument that given what the Fed has done so far another 100 basis points is no big deal. This is like saying that after an athlete uses steroids for a while, it’s no big deal if he starts injecting HGH (human growth hormone). Meanwhile, the Fed has set up new lending facilities that will focus liquidity on investment firms that are having financial difficulty. These new facilities do not by themselves increase total liquidity or inflationary pressure.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-08	Jan-08	Dec-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.3%	1.0%	-0.3%	4.0%	9.6%	6.8%
Ex Food and Energy	0.5%	0.4%	0.2%	4.7%	3.2%	2.5%
Food	-0.5%	1.7%	1.4%	10.8%	9.7%	6.0%
Energy	0.8%	1.5%	-3.0%	-3.1%	28.7%	20.7%
Consumer Goods	0.3%	1.1%	-0.4%	4.0%	11.7%	7.8%
Capital Equipment	0.5%	0.4%	0.1%	4.1%	2.7%	1.9%
Intermediate Goods	0.8%	1.4%	-0.2%	7.9%	11.7%	9.1%
Ex Food & Energy	0.6%	0.8%	0.0%	6.0%	5.4%	4.8%
Energy	1.1%	2.8%	-1.6%	9.1%	31.2%	23.4%
Crude Goods	3.7%	2.5%	1.1%	33.1%	48.8%	24.6%
Ex Food & Energy	3.3%	4.0%	0.2%	34.4%	26.4%	20.6%
Energy	5.6%	1.8%	-0.7%	30.2%	72.5%	30.2%

Source: Bureau of Labor Statistics