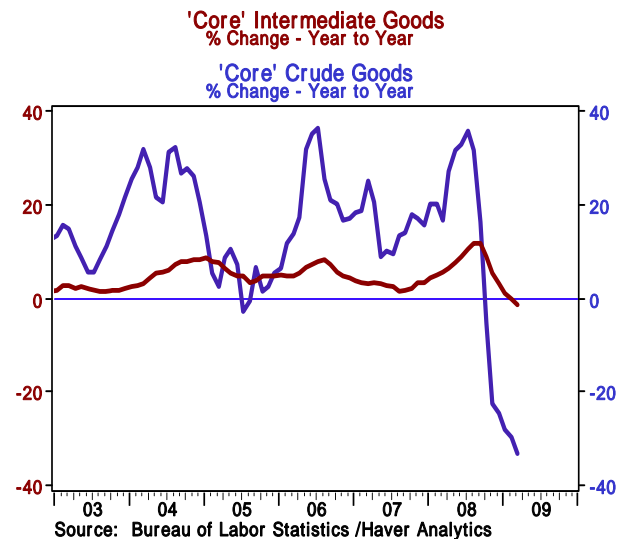
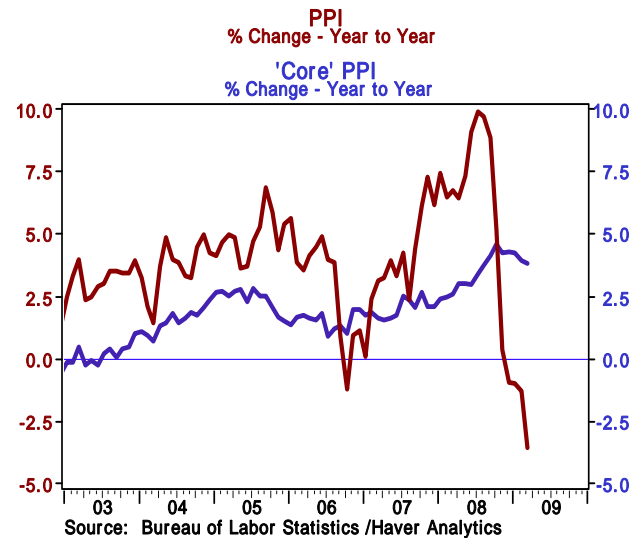


MARCH PPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) declined 1.2% in March. The consensus had expected the PPI to be unchanged. The PPI is down 3.5% versus a year ago.
- The drop in the PPI in March was almost all due to energy, which fell 5.5%. Food prices also declined 0.7%. The “core” PPI, which excludes food and energy, was unchanged.
- Consumer goods prices declined 1.5% in March and are down 5.6% versus last year. Capital equipment prices declined 0.2% in March but are up 3.4% versus a year ago.
- Intermediate goods prices fell 1.5% in March and are down 9.0% in the past year. Crude prices fell 0.3% in March and are down 38.9% versus last year.

Implications: Producer prices fell in March but this is not a prolonged return to the vicious deflation of late last year. The PPI report always reflects prices on the Tuesday of the week containing the 13th of the month. Last month that day was March 10. Since that day, commodity prices have generally increased, suggesting a major bounce in producer prices for April. Moreover, despite the drop in March, producer prices were down at only a 0.9% annual rate in the first three months of 2009 after falling at a 24.9% rate in the last three months of 2008. Core producer prices were up at a 2.6% rate in both three-month periods. The underlying inflation problem that preceded the collapse in monetary velocity in 2008 has not gone away. In other news this morning, business inventories fell 1.3% in February and were revised down for January. A drop in inventories is likely to be the primary cause for the negative real GDP reading we are going to get for the first quarter of 2009. Although it’s painful while it happens, this inventory correction is laying the groundwork for an economic recovery in the months ahead.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Mar-09	Feb-09	Jan-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-1.2%	0.1%	0.8%	-0.9%	-13.8%	-3.5%
Ex Food and Energy	0.0%	0.2%	0.4%	2.6%	2.6%	3.8%
Food	-0.7%	-1.6%	-0.4%	-10.1%	-7.5%	-1.0%
Energy	-5.5%	1.3%	3.7%	-2.7%	-52.4%	-25.5%
Consumer Goods	-1.5%	0.1%	1.0%	-1.6%	-18.1%	-5.6%
Capital Equipment	-0.2%	0.1%	0.5%	1.5%	2.1%	3.4%
Intermediate Goods	-1.5%	-0.9%	-0.7%	-11.7%	-27.0%	-9.0%
Ex Food & Energy	-0.3%	-0.6%	-1.1%	-7.7%	-16.0%	-1.6%
Energy	-6.3%	-2.0%	1.5%	-24.8%	-57.1%	-31.6%
Crude Goods	-0.3%	-4.5%	-2.9%	-27.2%	-60.0%	-38.9%
Ex Food & Energy	-1.6%	1.5%	0.1%	-0.4%	-57.3%	-33.1%
Energy	1.6%	-8.5%	-8.1%	-46.9%	-74.7%	-52.7%

Source: Bureau of Labor Statistics