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Data Watch

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APRIL PPI

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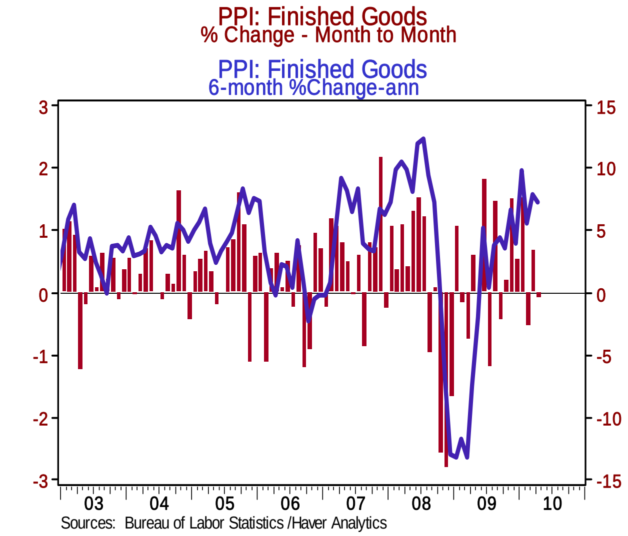
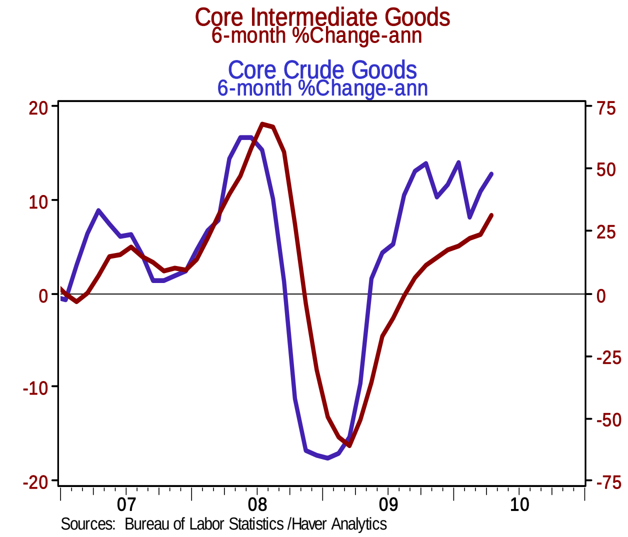
- The Producer Price Index (PPI) fell 0.1% in April versus a consensus expected gain of 0.1%. The PPI is up 5.5% versus a year ago.
- The April decline in the PPI was mostly due to energy, which fell 0.8%. Food prices also fell 0.2%. The "core" PPI, which excludes food and energy, was up 0.2% beating consensus expectations.
- Consumer goods prices declined 0.2% in April but are up 7.3% versus last year. Capital equipment prices increased 0.2% in April and are up 0.3% in the past year.
- Intermediate goods prices increased 0.8% in April and are up 8.5% versus a year ago. Crude prices fell 1.2% in April but are up 28.9% in the past twelve months.

Implications: Led by falling energy prices, producer prices pulled back 0.1% in April. This follows a five-month period when prices climbed at a 9% annual rate and, even with April factored-in, the six-month gain is still at a 7.3% rate. In other words, we don't see this report as a reason for the Federal Reserve to stay dovish on inflation. What's really interesting is that "core" inflation, which excludes food and energy, increased 0.2% in April and shows much more acceleration deeper in the production process. Core intermediate prices were up 1.1% in April and are up at a 8.3% annual rate in the past six months; core crude prices increased 4% in April and are up at a 47.9% annual rate in the past six months. In fact, core crude prices are up 49.7% in the past year, the largest increase since the early 1970s. "Core" inflation may be a more important measure to follow over the next few months as speculation over Europe's debt problems have helped drive down commodity prices in dollar terms. The bottom line is that the underlying trend in producer price inflation remains too high and will accelerate in the years ahead due to too loose a monetary policy from the Fed. The longer the Fed waits to respond the more serious the inflation problem will become.





Producer Price Index *All Data Seasonally Adjusted*	Apr-10	Mar-10	Feb-10	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Finished Goods	**-0.1%**	0.7%	-0.6%	0.0%	7.3%	5.5%
Ex Food and Energy	**0.2%**	0.1%	0.1%	1.4%	2.3%	1.0%
Food	**-0.2%**	2.4%	0.4%	10.8%	10.3%	4.9%
Energy	**-0.8%**	0.7%	-2.9%	-11.3%	19.3%	20.6%
Consumer Goods	**-0.2%**	0.9%	-0.7%	0.0%	9.4%	7.3%
Capital Equipment	**0.2%**	0.0%	-0.1%	0.5%	1.5%	0.3%
Intermediate Goods	**0.8%**	0.6%	0.1%	5.7%	10.6%	8.5%
Ex Food & Energy	**1.1%**	0.7%	0.9%	11.3%	8.3%	5.6%
Energy	**0.1%**	0.4%	-2.7%	-8.6%	22.4%	23.6%
Crude Goods	**-1.2%**	3.2%	-3.5%	-6.2%	28.3%	28.9%
Ex Food & Energy	**4.0%**	6.0%	-0.6%	44.2%	47.9%	49.7%
Energy	**-5.9%**	1.3%	-6.4%	-36.6%	23.5%	39.3%

Source: Bureau of Labor Statistics