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March PPI

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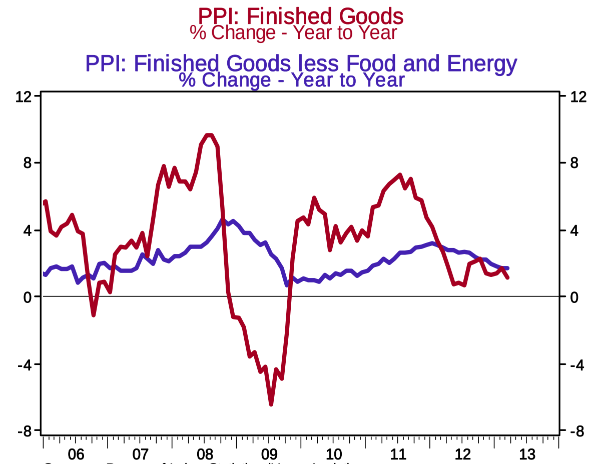
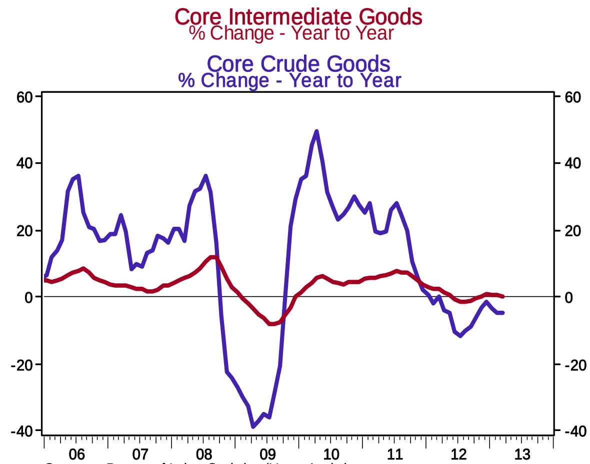
- The Producer Price Index (PPI) fell 0.6% in March, well below the consensus expected -0.2%. Producer prices are up 1.1% versus a year ago.
- The decline in the overall PPI was due to energy, which fell 3.4%. Food Prices were up 0.8%. The "core" PPI, which excludes food and energy, was up 0.2%.
- Consumer goods prices were down 0.8% in March, while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 1.2% while capital equipment prices are up 0.9%.
- Core intermediate goods prices were up 0.2% in March and are up the same versus a year ago. Core crude prices rose 0.9% in March, but are down 4.7% versus a year ago.



Sources: Bureau of Labor Statistics /Haver Analytics



Sources: Bureau of Labor Statistics /Haver Analytics

Implications: Higher inflation is coming, but it isn't here yet. Energy prices reversed course again in March declining 3.4% after rising 3% last month, pushing overall producer prices down 0.6%. "Core" prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.2% in March and have been accelerating somewhat in recent months. Over the past three months, "core" prices are up 2.2% at an annual rate compared to a 1.7% gain from a year ago. Some analysts may suggest that with the overall PPI only 1.1% from last year that the Federal Reserve has room for the new round of bond buying it announced a couple of months ago. We think this is a mistake, and it seems like some more members of the FOMC are starting to think the same thing. Core inflation is likely to continue growing and food inflation should continue moving upward, despite projections of bumper US crop yields, given recent improvement in emerging economies. Monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding even more excess reserves to the banking system is not going to boost economic growth. In other recent inflation news, import prices declined 0.5% in March and are down 2.7% from a year ago. Most of the decline is due to oil; excluding petroleum, import prices were slipped 0.1% in March and are down 0.2% from a year ago. Export prices declined 0.4% in March, but are up 0.3% in the past year. Excluding farm products, export prices were down 0.2% in March and -0.7% in the past year. Obviously, none of these figures set off any inflation alarm bells. However, we believe that given the loose stance of monetary policy, these figures will move higher over the next few years.

Producer Price Index *All Data Seasonally Adjusted*	Mar-13	Feb-13	Jan-13	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	**-0.6%**	0.7%	0.2%	1.2%	-1.0%	1.1%
Ex Food and Energy	**0.2%**	0.2%	0.2%	2.2%	1.5%	1.7%
Food	**0.8%**	-0.5%	0.7%	4.0%	3.8%	3.1%
Energy	**-3.4%**	3.0%	-0.4%	-3.7%	-10.4%	-1.9%
Consumer Goods	**-0.8%**	0.9%	0.2%	1.3%	-1.5%	1.2%
Capital Equipment	**0.1%**	0.1%	0.1%	1.0%	0.7%	0.9%
Intermediate Goods	**-0.9%**	1.3%	0.0%	1.4%	-1.0%	-0.8%
Ex Food & Energy	**0.2%**	0.7%	0.3%	4.9%	2.9%	0.2%
Energy	**-4.7%**	3.6%	-0.3%	-6.5%	-11.4%	-5.4%
Crude Goods	**-2.5%**	-0.3%	0.8%	-8.0%	-0.5%	-0.1%
Ex Food & Energy	**0.9%**	-1.7%	-0.3%	-4.3%	0.3%	-4.7%
Energy	**-8.5%**	2.2%	2.3%	-16.4%	-5.4%	-2.1%

Source: Bureau of Labor Statistics