

DAILY GLOBAL
COMMENTARY

Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

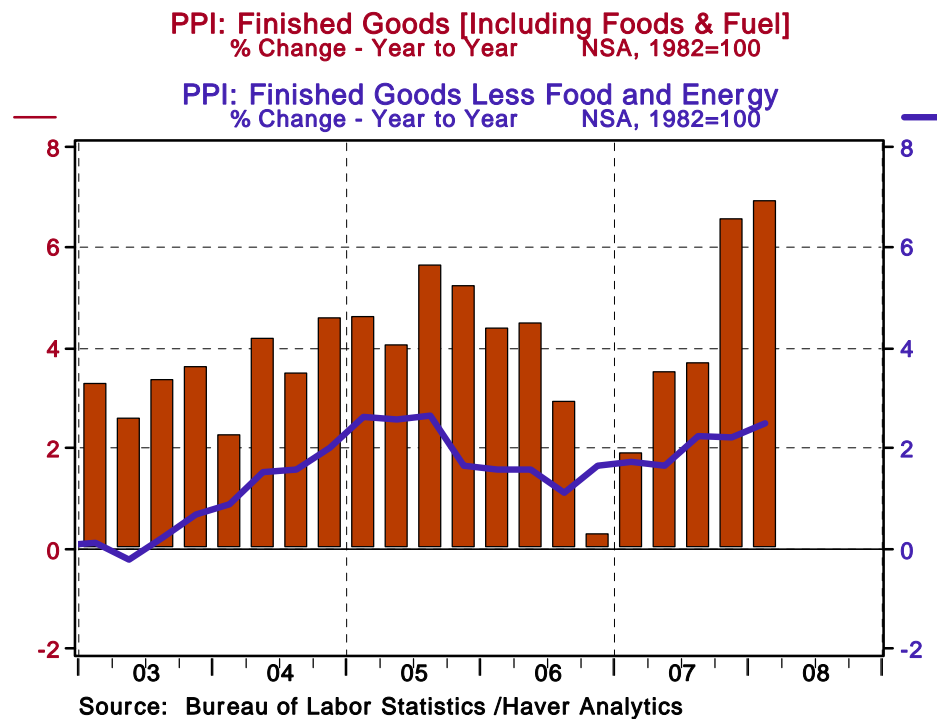
Asha G. Bangalore
Hagb3@ntrs.comH

Wholesale Sale Prices Stoke Concerns of Hawks, but Inflation is a Lagging Indicator

April 15, 2008

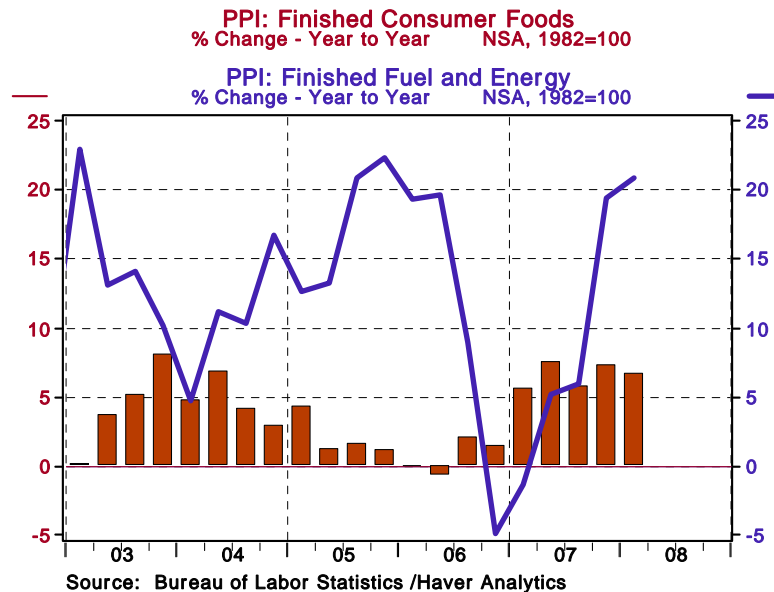
The Producer Price Index (PPI) for Finished Goods advanced 1.1% in March following gains of 1.0% and 0.3% in January and February, respectively. The PPI for finished goods has risen at an annual rate of 10.2% in the first three months of 2008 vs. an 11.5% increase in the fourth quarter of 2007 and a 6.3% gain in all of 2007.

Chart 1



This noticeable increase in wholesale prices in the first three months of the year reflects sharply higher prices for food (+10.1%), energy (+22.5%), and that of core items excluding food and energy (+5.0%). In March, the energy price index rose 2.9% and the food price index moved up 1.2%. Although prices of gasoline and natural gas rose at a slower pace than in February, prices of heating oil, liquefied petroleum, and residential electric power all turned up in March after posting declines in February. Fruits, vegetables, chicken, and beef were some of the food items carrying a large price tag in March compared with February.

Chart 2



Prices of new cars and trucks fell in March, but there were several other gains among core items, such as higher prices for drugs, alcohol, soaps, civilian aircraft, and pet food that helped to raise the core PPI, which excludes food and energy, to 0.2% in March. The acceleration of the core PPI to 5.0% in the three months ended March is supportive ammunition for the hawks in the FOMC. But, inflation is a lagging indicator which peaks long after an expansion in economic activity has ended. The expectation is that a moderation in inflation will emerge as the economy slows in the next few months.

Producer Price Index – March 2008

	% change	annualized % change		% change		
	prior month	3 mo. ago	6 mo. ago	Mar-08 yoy	Mar-07 yoy	Dec-07 yoy
PPI - FINISHED GOODS						
ALL ITEMS	1.1	10.2	10.8	6.9	3.1	6.3
CORE - ALL ITEMS LESS FOOD & ENERGY	0.2	5.0	3.6	2.7	1.6	2.0
FOOD	1.2	10.1	9.9	5.8	7.7	7.4
ENERGY	2.9	22.5	32.9	20.4	3.0	18.4
CAPITAL EQUIPMENT	0.1	4.3	3.0	2.0	1.8	1.3
PPI - INTERMEDIATE GOODS						
ALL ITEMS	2.3	19.4	16.9	10.5	3.3	6.8
CORE	1.1	10.7	7.6	5.5	3.2	3.3
PPI - CRUDE GOODS						
ALL ITEMS	8.0	73.4	70.5	31.4	13.3	20.6
CORE	3.5	52.6	29.7	16.8	24.9	16.8

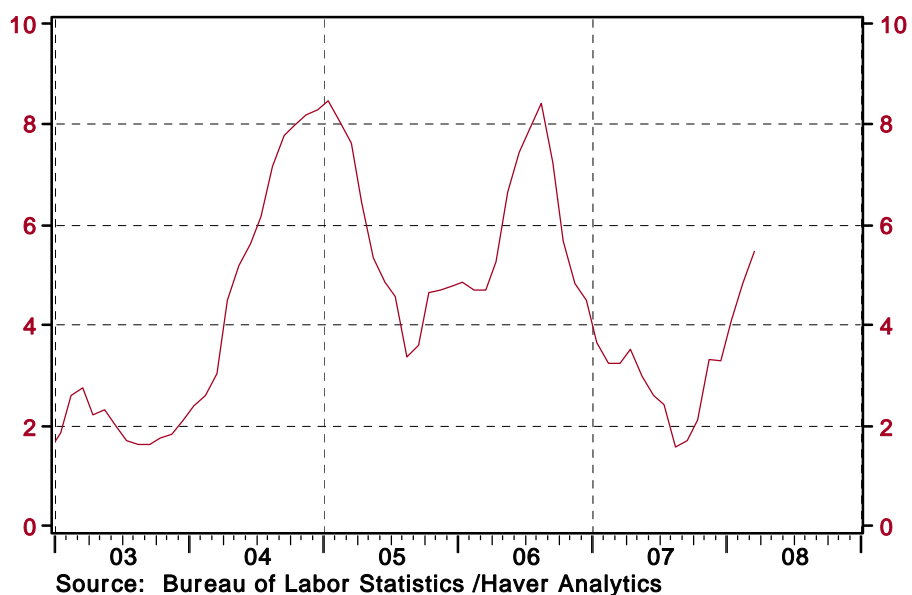
The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.

At the earlier stages of production, the PPI of intermediate goods rose 2.3% and that of core intermediate goods advanced 1.1%. The year-to-year change in the intermediate goods price index at 2.73% in March is the highest since July 2005. Prices of crude goods also increased in March.

Chart 3

PPI: Intermediate Materials Less Food & Energy

% Change - Year to Year NSA, 1982=100



The opinions expressed herein are those of the author and do not necessarily represent the views of The Northern Trust Company. The Northern Trust Company does not warrant the accuracy or completeness of information contained herein, such information is subject to change and is not intended to influence your investment decisions.