

DAILY GLOBAL
COMMENTARY

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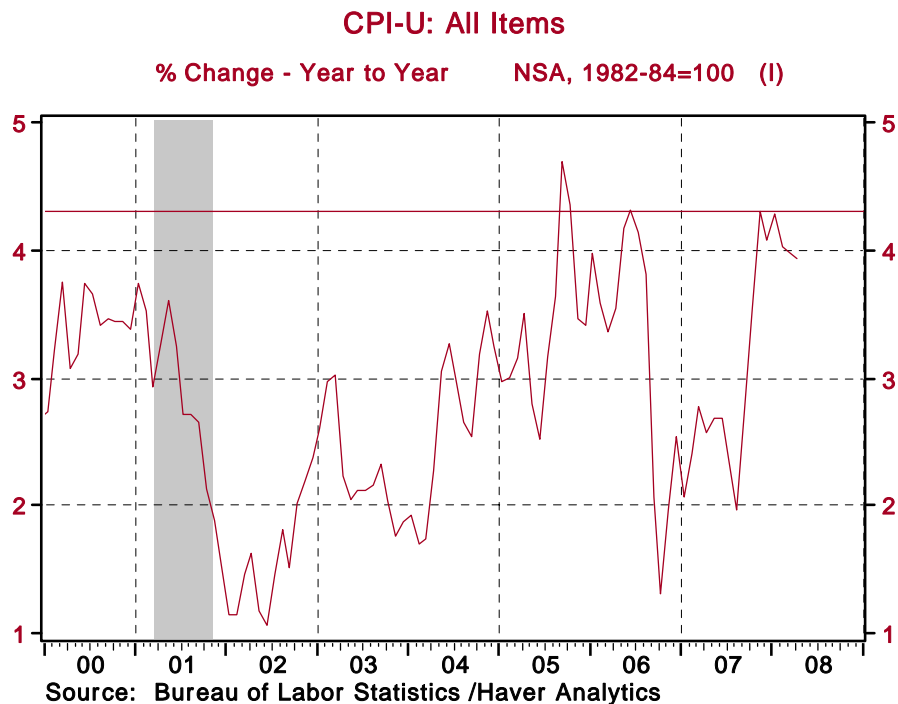
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Mild Moderation in Consumer Prices

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The Consumer Price Index (CPI) rose 0.2% in April after a 0.3% increase in March. On a year-to-year basis, the CPI increased 3.94% in April, down from a recent high of a 4.31% year-to-year increase in November 2007 (see chart 1).

Chart 1



The energy price index held steady in April after a 1.9% jump in March. In an environment of rising energy prices, this reading raises many questions and calls for a clarification. As shown in chart 2, the “*seasonally adjusted energy price index*” was unchanged but the “*seasonally unadjusted energy price index*” moved up in the expected direction. The BLS adjusts for seasonal changes and typically “gasoline prices increase seasonally during the first five months of the year, with the largest increases occurring in March and April and decline seasonally for the remainder of the year.” Based on this information, the change in the energy price index during April was consistent with expected seasonal changes which led to a steady reading of the index.

Chart 2

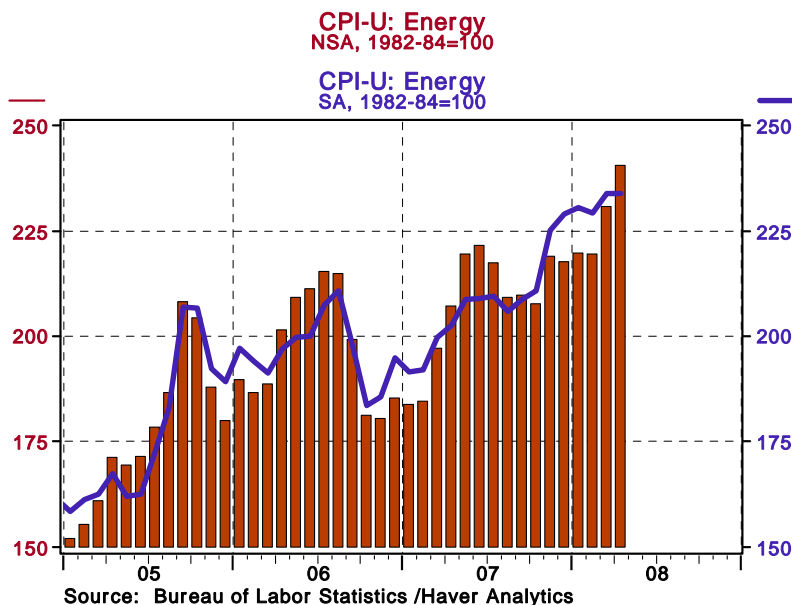
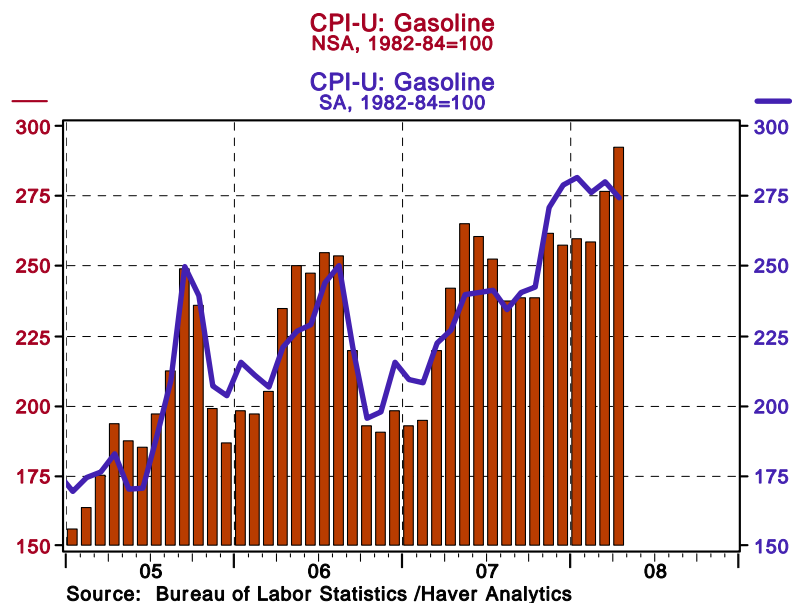


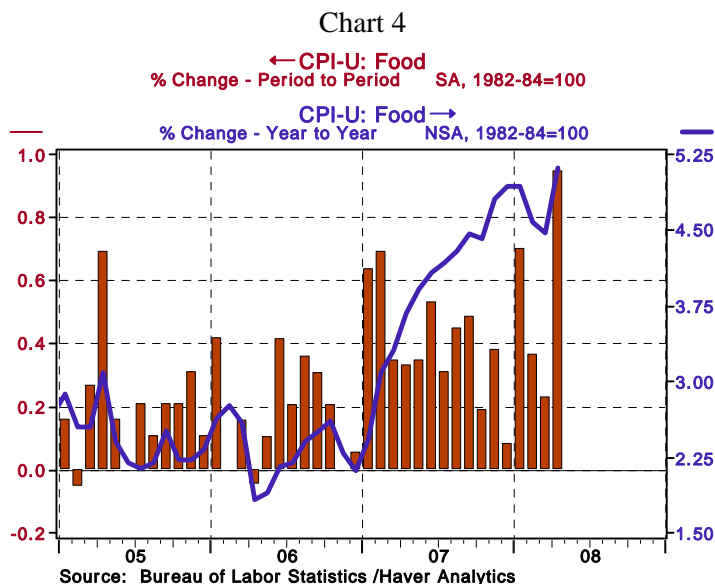
Chart 3 shows a similar picture for gasoline prices. On a *seasonally adjusted basis*, gasoline prices fell 2.00% in April but advanced 5.6% on a *seasonally unadjusted basis*. Of course, the public does not pay for gas on a seasonally adjusted basis, we pay the price quoted. The price of gasoline in April was higher than in March and it is up nearly 21% from April 2007.

Chart 3

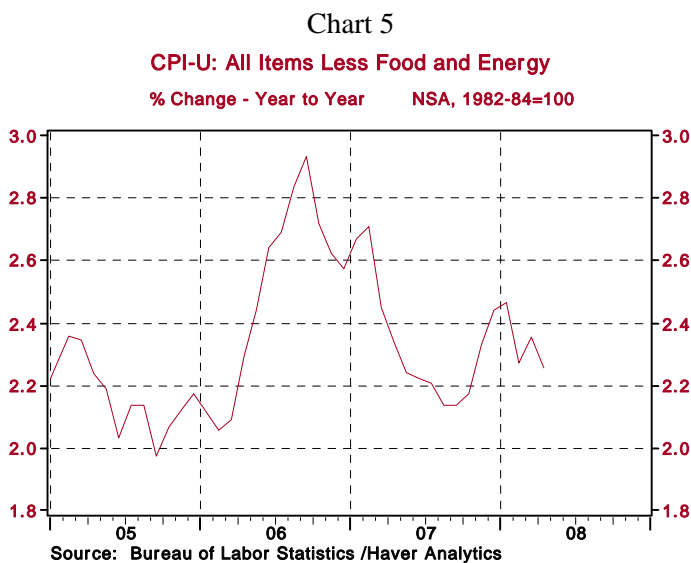


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The food price index increased 0.9% in April and 5.1% on a year-to-year basis. The upward trend of food prices is problematic and it is certainly making a dent in the household budgets.



Although it is not very meaningful to examine the CPI excluding food and energy prices, we do this as a matter of habit. The core CPI, which excludes food and energy prices, increased only 0.1% in April, after a 0.2% gain in March. On a year-to-year basis, the core CPI increased 2.35% in April compared with a 2.47% gain in January, which represents a noticeable deceleration in core inflation. Higher prices for clothing (+0.5%) reflecting rising import prices due to a weak dollar, shelter (+0.1%), medical care (+0.2%) and tobacco (+0.3%) more than offset lower prices for new (-0.2%) and used (-0.25) cars, and a decline in hotel prices (-1.9%) among the core items.



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Consumer Price Index – April 2008

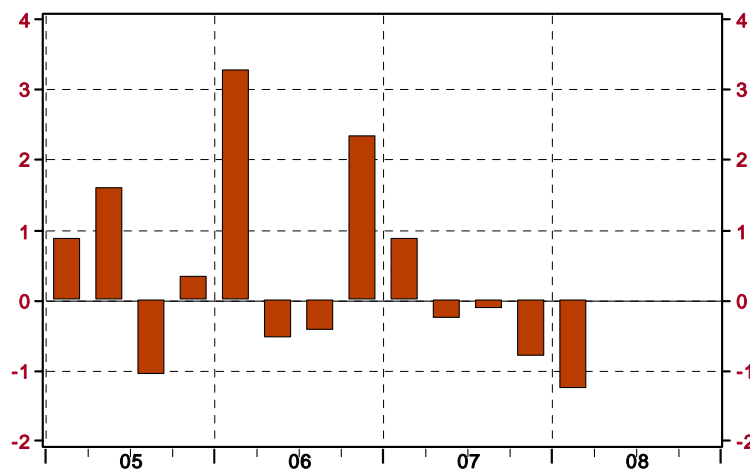
	% change prior month	annualized % change			% change		
		year-to-date	3 mo. ago	6 mo. ago	Apr-08 yoy	Apr-07 yoy	Dec-07 yoy
CPI - ALL ITEMS	0.2	3.0	2.3	4.5	3.9	2.6	4.1
CORE - ALL ITEMS LESS FOOD & ENERGY (76.47)*	0.1	1.8	1.2	2.2	2.3	2.3	2.4
CPI ALL ITEMS LESS ENERGY (91.3)	0.2	2.6	2.0	2.7	2.7	2.6	2.8
FOOD (13.83)	0.9	6.9	6.3	5.5	5.1	3.7	4.9
ENERGY (9.69)	0.0	6.3	5.6	23.1	15.9	2.9	17.4
SHELTER (32.6)	0.1	1.7	1.0	2.2	2.6	3.9	3.1
COMMODITIES (41.27)	0.1	2.2	0.8	6.0	4.8	1.4	5.2
COMMODITIES LESS FOOD & ENERGY (21.6)	0.0	0.0	-0.7	0.3	0.1	-0.5	0.1
SERVICES (58.7)	0.3	3.5	3.4	3.6	3.3	3.4	3.3
SERVICES LESS ENERGY SERVICES (54.87)	0.1	2.6	1.9	2.9	3.1	3.5	3.3
FRB CLEVELAND MEDIAN CPI	0.2	2.9	2.5	3.1	3.1	3.2	3.1

Conclusion – Both weak economic conditions and inflation are at the top of the list of priorities at the Federal Reserve. The good news is that the April report showed a moderation in inflation. At the same time, inflation adjusted retail sales fell 0.3% in April, following a string of declines. [The commodities price index from the CPI report is used to deflate retail sales.] As shown in chart 6, inflation adjusted retail sales have dropped for four consecutive quarters at mostly an accelerating pace. The weakness seen in April and forecasts of consumer spending should translate into another quarterly decline in inflation adjusted retail sales. In the inflation-growth debate at the Fed, weak demand conditions should prevail over other considerations. However, the Fed is not expected to make changes to the federal funds rate in the near term. The FOMC is awaiting the lagged impact of the 325 bps reduction in the federal funds rate and the outcome of tax rebate checks before it acts.

Chart 6

Inflation Adjusted Retail Sales

% Change - Period to Period (millions)



Source: Haver Analytics

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