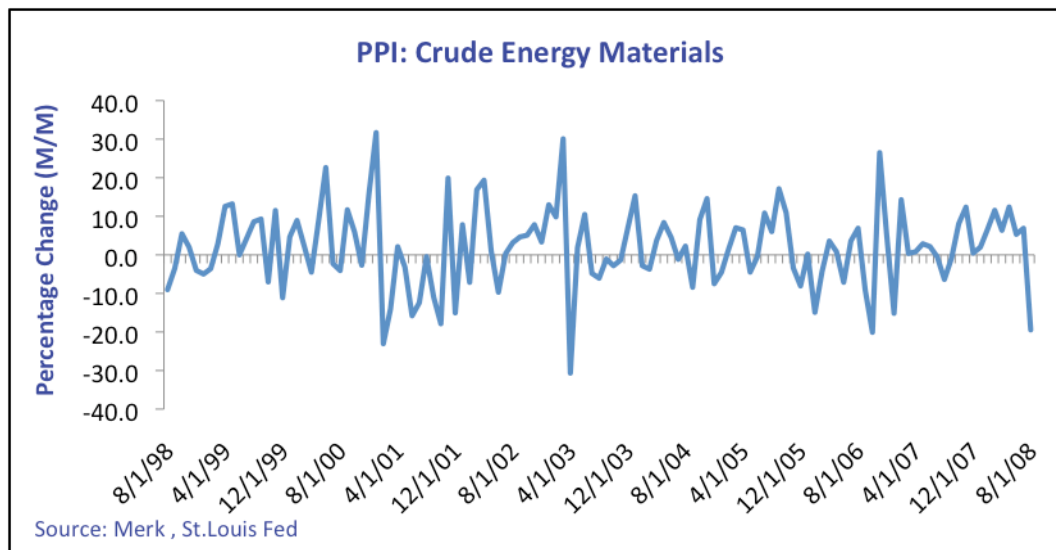




Producer Price Index: September 2008

The September estimate of PPI indicated that producer inflation declined -0.4% m/m and was up 8.7% y/y. The core ex-food and energy estimate advanced 0.4% m/m and was up 4.0% y/y. Ex food producer prices were down -0.5% and the ex-energy costs were up 0.4% over that same period. The cost of consumer goods declined -0.6% on the back of a -8.2% in the price of residential gas and a -0.2% drop in the cost of residential electricity. The cost of capital equipment increased 0.5%, foods were up 0.2% and energy fell -2.9%

The cost of total intermediates declined -1.2% on the month, while the ex-food and energy component fell -0.3%. Ex-food, pipeline prices declined -0.3%, ex food they were down -1.2% and ex energy declined -3.8%. The cost of containers increased 2.0% for the month, foods were down -0.9% and energy fell -3.8%. The cost of crude goods dropped -7.9% overall and the core ex-food and energy declined -9.4%.



While, the consumer hit the mat hard in September, the market observed a split decision on producer prices. The headline fell as expected and the core remained elevated. While, inflation does remain embedded in the system, inside the data there is a real silver lining. Raw goods, which down the road will provide relief inside the pipeline fell sharply for both the headline and core rates. In particular, the -9.4% decline in core raw goods should facilitate positive movement inside the core in early 2009. Inflation is a slow moving process and there will be improvement in the core rate of inflation across all pricing measures, but it will take time.