



Economics Group

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Core Wholesale Prices Jump in March

Reflecting lower energy costs, headline PPI remained unchanged in March. Excluding food and energy, wholesale prices increased a stronger-than-expected 0.3 percent.

Energy Prices Restrain Headline PPI in March

Pulling back from the 0.4 percent gain recorded in January, prices for total finished goods remained unchanged during the month of March. On signs of distress in the Middle East and continued refinery shutdowns in the United States, wholesale gasoline prices started the year increasing 4.3 percent and 2.0 percent in February and January, respectively. While gasoline prices continued to increase last month, they rose less than the seasons had expected, and therefore declined 2.0 percent. Softness was found elsewhere in the energy component, as lower prices for residential electric power and diesel fuel also pulled back. While residential natural gas prices increased for the first time in 7 months, total energy prices contracted 1.0 percent. Elsewhere, wholesale food prices increased for the first time since November on the strength of a 12.8 percent jump in fresh and dry vegetables and a 3.1 percent gain in pork.

Since peaking in July 2011 at 7.1 percent, the year-over-year pace of headline PPI has moderated to a 2.8 percent pace today. With elevated base levels still in play from last year as a result of higher energy prices (Arab Spring), the year-over-year pace of headline PPI should remain contained in the coming months.

Core PPI Strengthens

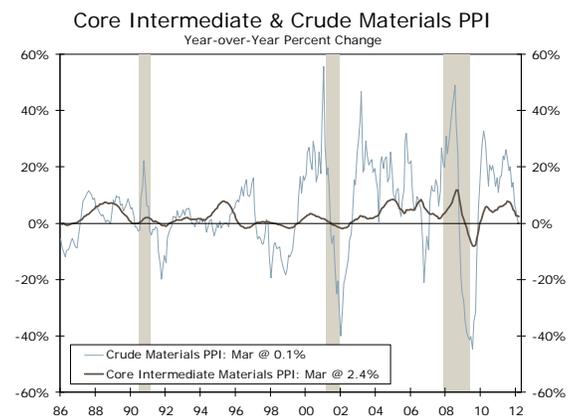
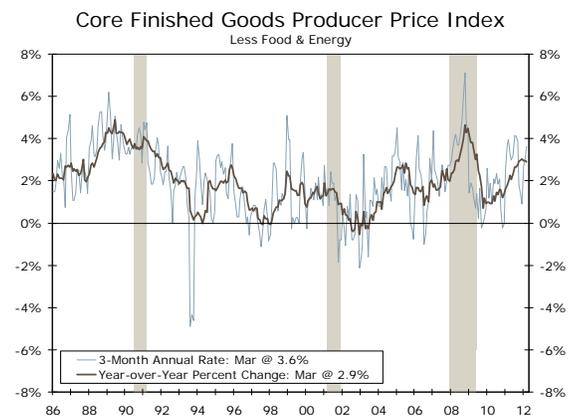
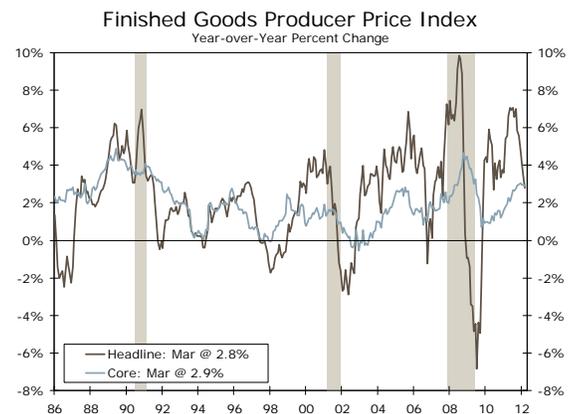
For the second time in three months, core PPI increased at a stronger-than-expected pace. Largely on the strength of higher motor vehicle prices, core PPI jumped 0.3 percent in March, following a 0.2 percent gain in February. One-third of the core's increase was attributed to the 0.7 percent gain in light trucks. Reduced manufacturer vehicle incentives are largely to blame as passenger cars also advanced on the month, rising 0.8 percent.

For the first quarter, core finished goods prices increased at a 3.6 percent annualized rate. That's up from the 0.9 percent pace registered in the fourth quarter of 2011 and above the year-ago pace of 2.9 percent. As seen in the middle chart, normally when the 3-month annual rate exceeds the year-over-year pace, we will see upward pressure on core PPI.

Pipeline Pressures Mixed

Inflation news further back in the production pipeline was mixed. On broad-based increases, total intermediate prices matched its February increase, rising 0.7 percent in March. Core intermediate prices also rose on the month, up 0.6 percent, as basic organic chemicals posted its second straight outsized gain. At the crude stage, total crude prices declined 2.5 percent as crude energy prices dropped 9.2 percent. Excluding food and energy, crude prices advanced 1.1 percent.

Over the past year, core intermediate goods prices have risen 2.4 percent, while core crude prices remain largely unchanged at 0.1 percent.



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