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Economics Group

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Wholesale Prices Jump Again in March

Led by another large gain in energy, the headline Producer Price Index rose 0.7 percent in March. Excluding food and energy, finished goods prices increased a stronger-than-expected 0.3 percent.

Gasoline Drives Headline Higher

For the ninth consecutive month, prices of total finished goods increased, up 0.7 percent in March. Last month's gain also marks the sixth consecutive month that the headline finished goods index increased at least 0.5 percent. Once again, a large gain in wholesale energy products accounted for the lion's share of last month's increase.

On the energy front, what was expected to occur, did. The late-February jump in oil prices as a result of the uprising in Libya occurred too late in the month to be captured in the February survey. The $10/barrel jump resulted in the energy component rising 2.6 percent in March. Over 80 percent of that gain is attributed to wholesale gasoline, up 5.7 percent. On a three-month annual basis, energy prices have surged 35.2 percent and are up 17.6 percent over the past year. With oil prices expected to remain high in the coming months, upward pressure should remain on the headline PPI.

Following the largest gain since November 1974, a reversal in wholesale food prices was largely expected. Last month's decline, 0.2 percent, is expected to be temporary as the food price trend is clearly upwards given the combination of solid global growth and the disappointing harvests we have witnessed around the world.

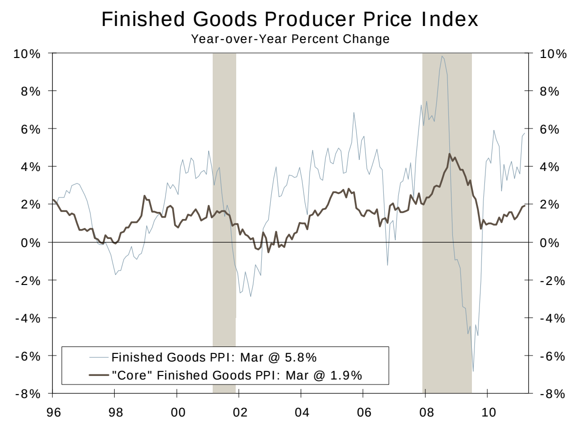
Core PPI rose a stronger-than-expected 0.3 percent. The largest factors behind last month's rise were increases in passenger cars and light trucks. Year over year, core PPI remains contained at 1.9 percent.

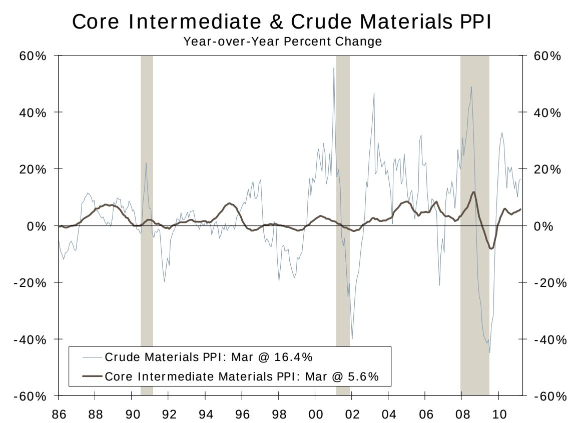
Pipeline Pressures Mixed

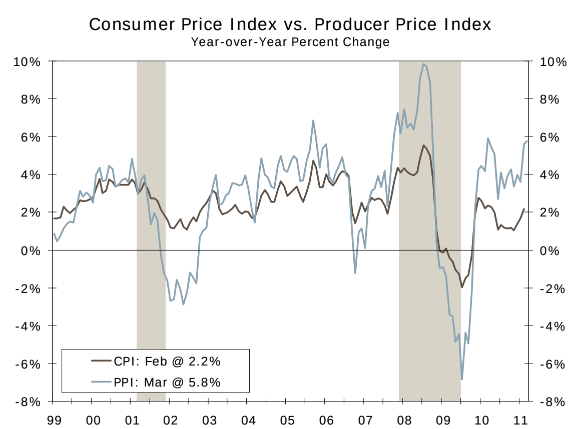
Rising for the eighth consecutive month, total intermediate PPI increased 1.5 percent. Strength was broad-based and reflects the fact that higher material costs continue to feed through. Further back in the pipeline, however, some relief was seen as both total and core crude PPI fell.

Manufacturing Pricing Power Strengthens

Given the large amount of overcapacity as a result of the Great Recession, manufacturers have had very limited pricing power over the past few years. While slack remains substantial, manufacturers are beginning to see their ability to pass along higher production costs increase. Historically, manufacturers test their pricing power ability at the start of the year. That has been especially true this year as commodity prices across the spectrum have increased significantly and cut into profits. We have seen over the past few months in many regional purchasing managers' surveys that firms have increased their prices. Yesterday's Federal Reserve Beige Book picked up on this trend and noted that manufacturing firms were seeing less resistance to price increases and were more successful in passing along those higher costs than retail or construction firms. Assuming this trend can continue, consumer prices should accelerate over the course of the year.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

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