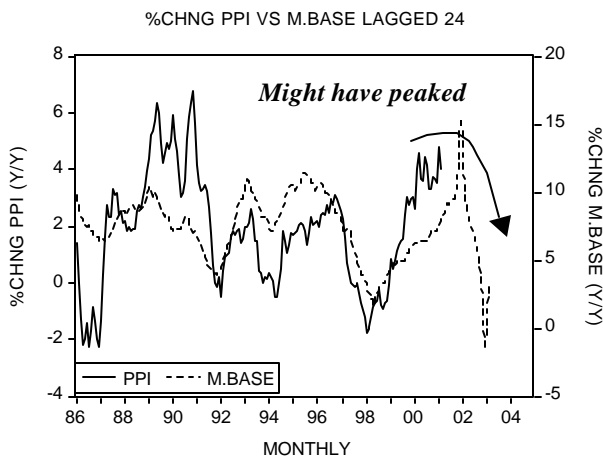
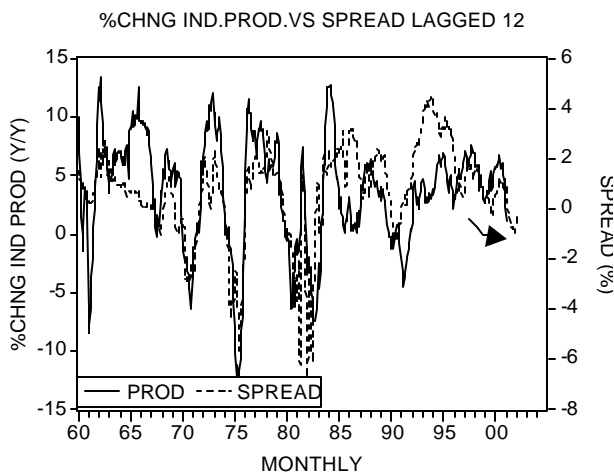


US producer price inflation softens in February

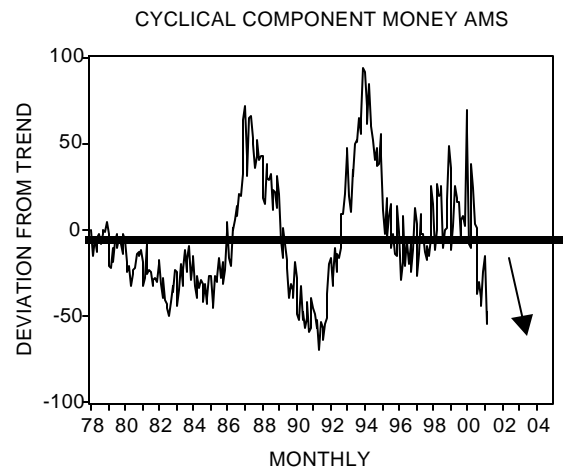
The producer price index (PPI) increased by **0.1%** in February after increasing by **1.1%** in the previous month. Year-on-year the rate of increase in the PPI fell to **4%** from **4.8%** in January. The PPI, which excludes food & energy fell by **0.3%** after rising by **0.7%** in January. Using the lagged rate of growth of the monetary base we can suggest that there is a growing possibility that the momentum of PPI growth has peaked (see chart).



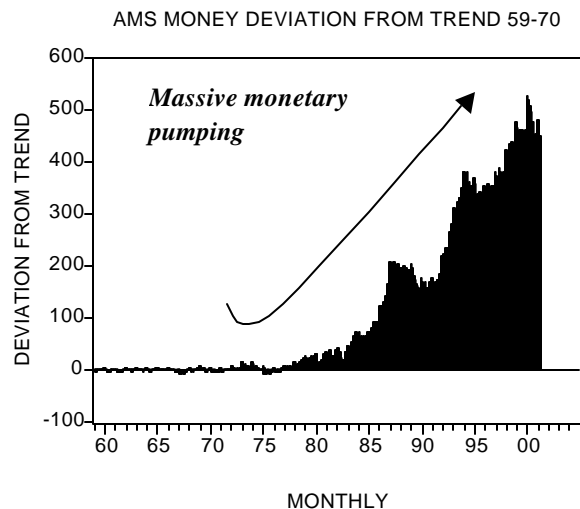
In the meantime, industrial production fell by **0.6%** in February after a similar fall in January. A flattening in the differential between the yield on the 30-year T-bond and the federal funds rate points to the possible softening in the rate of decline in the momentum of industrial production (see chart).



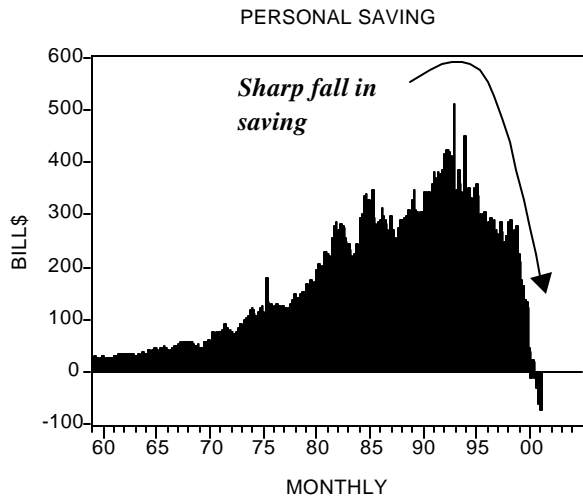
Meanwhile the cyclical component of the money supply AMS remains depressed (see chart). This in turn doesn't bode well for economic activity in the months to come.



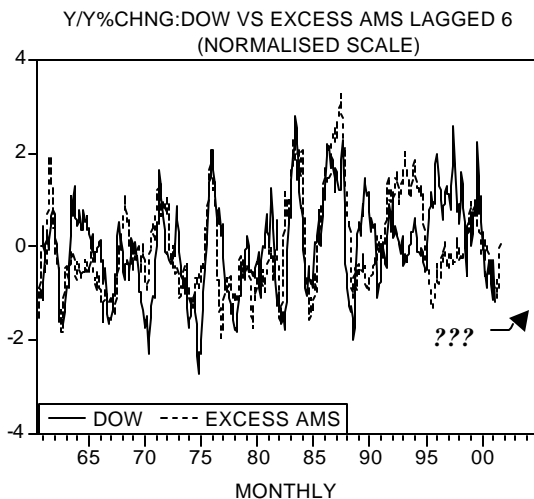
Most economists and financial commentators maintain that a further aggressive lowering of interest rates by the FED, will prevent the economy from falling into a severe recession. What however, will determine the "success" of the FED's aggressive lowering of rates is the state of the real pool of funding. Massive monetary pumping since 1980 is indicative of a massive consumption of wealth without preceding wealth production (see chart).



Moreover in January the pool of personal savings fell by **\$72bln** after a fall of **\$59bln** in the previous month (see chart). A fall in personal saving raises the possibility that the pool of real funding could be in trouble. According to the Federal Reserve Board's "flow of funds" report household net worth - total assets minus liabilities declined **2%** in 2000 from 1999. This was the first decline since available data begin in 1945. Consequently all this precludes any meaningful economic recovery.

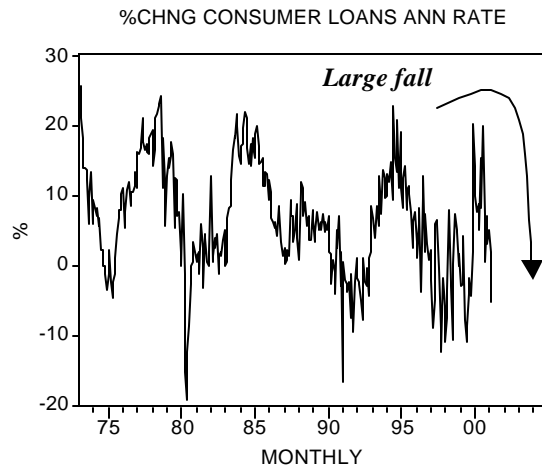


The latest data points to strong rises in monetary injections by the FED. Year-on-year in the first week of March the money base increased by **3.3%** after rising by **2.9%** in February. Also, excess AMS money growth jumped to **-1.5%** from **-2.5%** in February and **-6.6%** in October last year. A visible rebound in the rate of growth of excess money could help the stock market (see chart) provided the real pool of funding is not declining. The Dow Jones Industrial Average lost **821** points, or **7.7%** during the week. It was the worst one-week point drop ever. The Nasdaq Composite lost **7.9%**. The index is down **63%** from its high and off **23%** for the year. The S&P500 fell for the week **83** points, or **6.7%**.

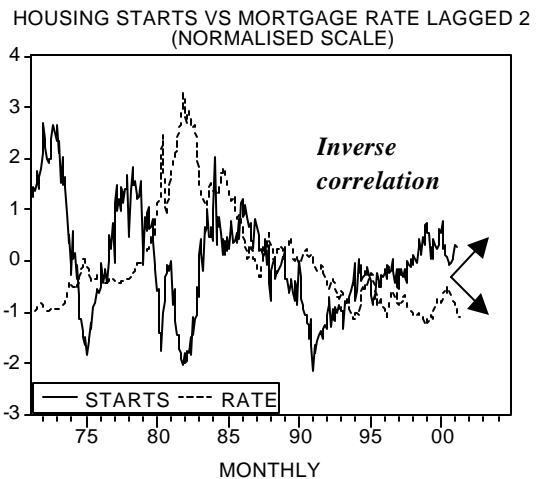


In early March commercial bank consumer loans fell by an annualised **5%** after rising by an annualised **2%** in February and **5%** in January (see chart). Business loans

fell by an annualised **1.1%** in the first week of March after rising by **9%** in February and **16%** in January.



A further fall in the fixed mortgage interest rate continues to provide support to the housing market. In February housing starts eased by **0.4%** after rising by **4.8%** in the previous month (see chart).



Financial News

- Japan acknowledged on Friday that the nation's economy is beset by deflation.
- The Euro-land CPI up 2.6% in Feb vs 2.4% Jan y/y.
- US mortgage delinquencies up 0.5% in Q4.
- US sentiment index rose to 91.9 in Mar vs 90.6 Feb.

Thought for the week

The most wasted of all days is one without laughter.
E.E. Cummings