

## **Transcript of Andrew Dowie's Markets Update – 17 February 2011**

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### **Andrew Dowie:**

Good morning. This is Andrew Dowie from Advance Asset Management with a rundown of the data releases for yesterday, Wednesday 16 February, in the United States.

Now, January's PPI was released last night, and looking at the monthly headline release, this was fairly muted; it came in bang on market consensus at up 0.8% on the month.

Of note, the December report was revised down from an up 1.1% to up 0.9%. Now, in annualised terms we were up 3.6% in January from December's up 4%. So, January's 0.8% gain in this headline release was driven principally by a 6.7% jump in petrol prices. Indeed, just focusing on this energy component, it was not all one-way traffic; both electricity and natural gas prices were down 1% in January.

Now, just returning to the petrol price component, at the start of this month, of February, West Texas crude was printing about \$90 a barrel; it's now about \$85, so petrol prices should be more subdued this month. That's touch wood that the [Gulf States] don't put a spanner in the works.

Now, just turning to the food component of this headline PPI, the good news for now is that the 85% increase in agricultural commodity prices since the middle of last year are still not showing up in PPI finished consumer foods. Indeed, they were up just 0.3% on the month.

In January, however, if we move backwards in the production process, raw foodstuffs were indeed up in January; they increased 4.3% on the month.

Now, turning to the core metric, not as pretty a picture here. January's month-on-month call was up 0.5%. Consensus here was for an up 0.2% release. So what's going on? We really can't pin this to any specific thing. Essentially, it was rather strong gains across a range of consumer goods. So, to a certain degree, this is evidence that there is a building of price pressures in the pipeline. That said, January is notorious for one-off price shifts which can be very difficult to

seasonally adjust for. Now, the final say on this matter is evidence tends to imply that this inflation has run its course and that at the consumer level upward price pressures now outweigh downward ones.

Turning now to January's industrial production release, it came in at a negative 0.1%. Now, consensus here was for a 0.5% monthly increase. Of note, December's release was revised up from initially reported up 0.8% to up 1.2%. Now, the downside surprise here was partly due to the volatility of utilities and mining components in the report. This makes sense, as although January was very snowy, it was not unusually cold, which explains why output could be hit but heating demand did not spike.

Turning now to the core manufacturing bit of the report, this too was pretty subdued but nowhere near as a surprise as the industrial production release. Indeed, this manufacturing output release was actually quite good, quite encouraging, given the fact that average hours worked declined on the month due to the severe snow storms.

Now, continuing on this positive tack, looking at the product details, output of business equipment was up by 0.9% on the month, which augurs well for business investment growth going forwards. All in all, this headline industrial production release is not a great report, but considering the weather factor and also the current strength of the [ISMs], we should perhaps take this January report with a pinch of salt.

Now, turning to January's housing starts release, this comfortably beat consensus and indeed was up 14.6% from the month before. Consensus had pencilled in an up 539,000 figure, and the actual release was up 596,000. Now, the increase was driven entirely by a surge in multi-family starts - that's units of flats to you and me - and was most pronounced in the north-east and mid-west. The west actually declined by some 9.7%.

Now, this report is good news, but we have to put things into context. Housing starts still remain at an unusually low level, and essentially remain within the range they established in early 2009 and will probably remain range-bound until excess new home inventories are reduced further.

Thanks very much.

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