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Surging Prices for Commodities Reflect Global Growth

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Commodity prices are nearing record highs - but there may be less to worry about than investors think.

While higher commodity prices have often been a worrisome portent of inflation, those concerns have been overshadowed by the other significance of the rise - that economic growth is picking up in areas around the world.

Some analysts also say that the impact of these higher commodity prices on inflation will be muted.

The rise "reflects booming activity in the Asian developing world and on balance, that means the global economy is doing better than we thought," said Robert J. Barbera, chief economist at ITG/Hoenig.

Yet after a closely watched index of commodities rose to a 24-year high yesterday, doubts about this upbeat interpretation emerged in the markets. As the prices of crude oil, home heating oil and copper, all components of the commodity index, neared their record highs, the stock market slumped and Treasury prices fell, sending yields higher.

At the end of the trading day in New York - which was battered by a snowstorm that one analyst said contributed to a rise in the price of home heating oil - crude oil for April delivery on the New York Mercantile Exchange was at $54.59 a barrel, up 1.3 percent from $53.89 on Monday. Oil had traded over $55 during the day and is still very close to its high of $55.17, reached in October.

Home heating oil for April delivery was up 2.6 percent, to $1.5238 a gallon, and gasoline futures, which are lower than retail prices at the pump, rose to a record of $1.5353 a gallon, up 2 percent on the day.

The price of a pound of copper inched up 0.2 percent, to $1.4995 a pound.

The CRB/Reuters index of 17 commodities climbed 1.1 percent, to 312.65, not far from its 314.50 high in January 1981. In the last year, the index has risen 15 percent, with most of that coming in the last month.

In the bond market, the yield on the 10-year Treasury note rose to 4.39 percent from 4.31 percent on Monday, which was very close to its recent high of 4.41 percent in early December. The price, which moves in the opposite direction, fell 20/32 to 96 28/32.

The Dow Jones industrial average stumbled in another attempt to get back to the 11,000 level, falling 24.24 points, or 0.2 percent, to 10,912.62. The Standard & Poor's 500-stock index dropped 5.88 points, or 0.5 percent, to 1,219.43, while the Nasdaq composite index fell 16.66 points, or 0.8 percent, to 2,073.55.

Still, for investors, the rise in commodity prices, especially for industrial materials, is positive right now because it is a sign that the global economy is healthy, which is good for the American economic recovery.

As for their inflationary impact, Mr. Barbera, the economist, argues that it should be much weaker than in the past. One reason for this, he said, is that the industrial commodities are being used in low-wage countries, like China and others in Asia, to make products that can sell for less elsewhere in the world, mitigating the inflationary pressure.

To support his argument, he notes that the prices of consumer goods, excluding food and energy, have climbed just 0.9 percent in the last 12 months through January. In that same time period, the CRB/Reuters index of raw industrial commodities has climbed 4.8 percent.

"So the inflation link is tenuous at best," he said. "I don't see the big inflation associated with this."

Investors seemed to have gone along with this interpretation for some time, given that the increase of the price of oil in October to above $55 a barrel and its current rebound have not set off a big jump in longer-term interest rates, which are sensitive to inflation fears.

Despite yesterday's rise in Treasury rates, longer-term rates are still below recent highs and are well below where rates were when the Federal Reserve began raising its short-term interest rate benchmark in June.

Instead, investors have seemed to believe that higher oil prices would just slow growth, and this interpretation has helped keep longer-term interest rates in check.

Ward McCarthy, managing director at Stone & McCarthy Research Associates, said that this belief was being challenged yesterday in the bond market.

"The CRB is on the move again and it would seem that the market is rethinking the oil, inflation, economy nexus," he said. "Maybe it is that it is more of an inflationary threat."

He said that the focus was on the recent high yield of 4.41 percent for the 10-year Treasury note, and if it is breached, then inflation fears may begin playing more of a role in the bond market.

As for crude oil, it was led higher yesterday by the jump in the price of home heating oil, said James R. Steel, New York research director for Refco.

"This snowstorm was not expected, and it triggered very strong buying of home heating oil, and that affected the rest of the energy complex today," he said.

Drivers will not get any respite from the rise in gasoline prices, according to the government. The Energy Information Administration said yesterday in its monthly energy forecast that gasoline prices would reach a record national average of $2.15 a gallon this summer.

Below are the results of yesterday's auction of four-week Treasury bills: