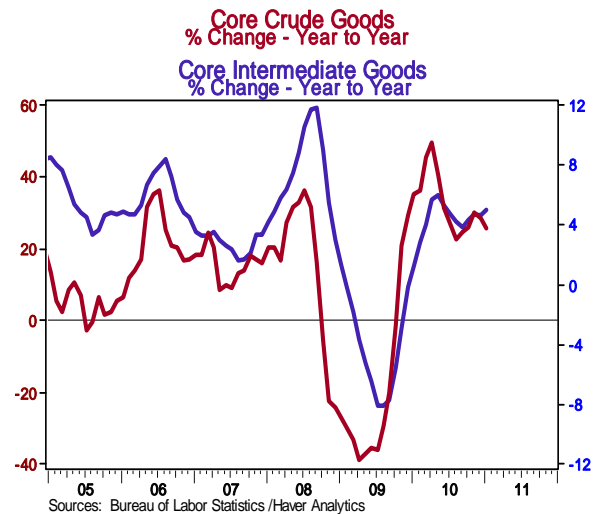
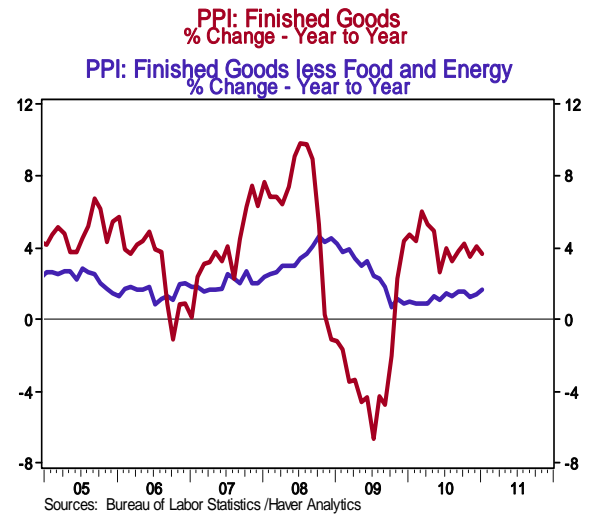


# JANUARY PPI

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) increased 0.8% in January, matching consensus expectations. Producer prices are up 3.6% versus a year ago.
- The January rise in the PPI was led by energy prices, but gains in prices were widespread. Energy prices increased 1.8% while food prices rose 0.3%. The “core” PPI, which excludes food and energy, increased 0.5%, easily beating the consensus expected gain of 0.2%.
- Consumer goods prices rose 0.9% in January and are up 4.7% versus last year. Capital equipment prices were up 0.3% in January and are up 0.6% in the past year.
- Core intermediate goods prices increased 1.0% in January and are up 5.0% versus a year ago. Core crude prices increased 4.0% in January and are up 25.7% in the past twelve months.

**Implications:** Inflation is accelerating at the producer level. In the past year producer prices are up 3.6% but they're up at a 7.9% annual rate in the past six months and a 9.6% rate in the past three months. Although the Federal Reserve can still claim “core” inflation is low at the consumer level, they are losing that argument at the producer level. The core PPI, which excludes food and energy, increased 0.5% in January, the biggest gain since October 2008. Meanwhile, further up the production pipeline, core intermediate prices increased 1% in January and are up at an 8.6% annual pace in the past three months; core crude prices increased 4% in January and are up at a 52.3% rate in the past three months. Eventually, some of these increases will filter through to consumers. The Fed's monetary policy is completely inappropriate for the current state of the economy. They have been too easy for too long. QE2 was a mistake. QE3 would be a bigger mistake. Inflation is already on the rise.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jan-11	Dec-10	Nov-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	<b>0.8%</b>	0.9%	0.7%	9.6%	7.9%	3.6%
<b>Ex Food and Energy</b>	<b>0.5%</b>	0.2%	0.1%	3.5%	1.5%	1.6%
<b>Food</b>	<b>0.3%</b>	0.8%	0.9%	8.1%	6.6%	3.8%
<b>Energy</b>	<b>1.8%</b>	2.8%	1.8%	28.6%	28.0%	9.1%
<b>Consumer Goods</b>	<b>0.9%</b>	1.2%	0.8%	12.2%	10.4%	4.7%
<b>Capital Equipment</b>	<b>0.3%</b>	0.1%	0.1%	2.0%	0.4%	0.6%
<b>Intermediate Goods</b>	<b>1.1%</b>	0.9%	1.1%	12.9%	11.0%	5.9%
<b>Ex Food &amp; Energy</b>	<b>1.0%</b>	0.4%	0.6%	8.6%	6.2%	5.0%
<b>Energy</b>	<b>1.8%</b>	2.4%	2.4%	29.6%	27.2%	8.8%
<b>Crude Goods</b>	<b>3.3%</b>	6.5%	1.3%	54.4%	47.1%	10.3%
<b>Ex Food &amp; Energy</b>	<b>4.0%</b>	3.5%	3.2%	52.3%	51.0%	25.7%
<b>Energy</b>	<b>1.9%</b>	14.4%	0.6%	89.5%	49.8%	-5.7%

Source: Bureau of Labor Statistics