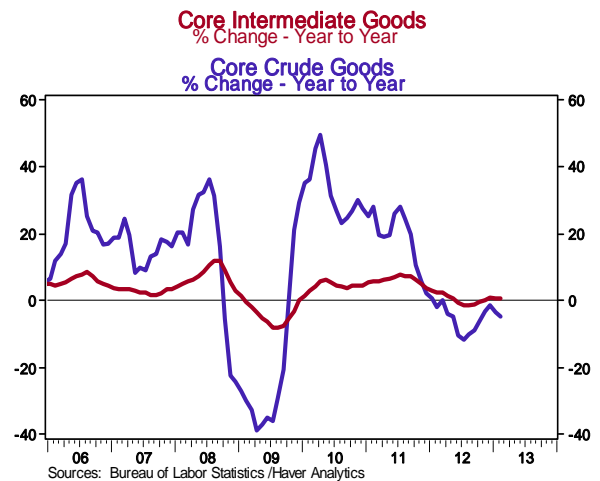
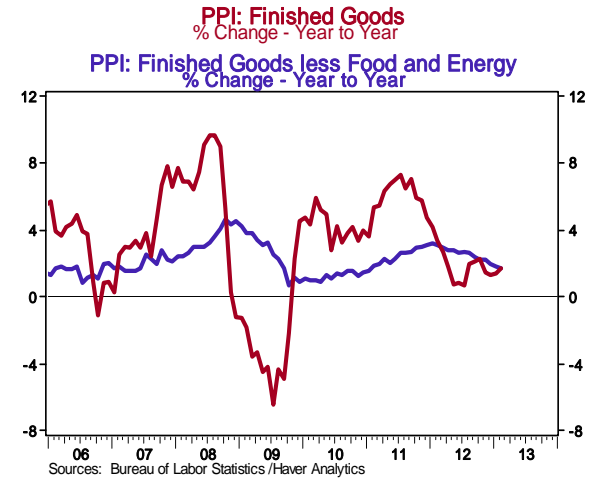


February PPI

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- The Producer Price Index (PPI) rose 0.7% in February, exactly matching consensus expectations. Producer prices are up 1.7% versus a year ago.
- The increase in the overall PPI was mainly due to energy, which rose 3.0%. Food Prices were down 0.5%. The “core” PPI, which excludes food and energy, was up 0.2%.
- Consumer goods prices were up 0.9% in February, while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 2.0% while capital equipment prices are up 0.9%.
- Core intermediate goods prices were up 0.7% in February and are up the same versus a year ago. Core crude prices fell 1.7% in February, and are down 5.0% versus a year ago.

Implications: Energy prices reversed course in February rising 3% after falling for the past four months, pushing overall producer prices up 0.7%. “Core” prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.2% in February and have been accelerating somewhat in recent months. Over the past three months, “core” prices are up 2% at an annual rate compared to a 1.7% gain from a year ago. Some analysts may suggest that with the overall PPI and “core” PPI up only 1.7% from a year ago that the Federal Reserve has room for the new round of bond buying it announced a couple of months ago. We think this is a mistake. Core inflation is likely to continue growing and food inflation should continue moving upward given recent improvement in emerging economies. Monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding even more excess reserves to the banking system is not going to boost economic growth. Given the loose stance of monetary policy, higher inflation is on the way. In other news this morning, initial claims for unemployment insurance declined 10,000 last week to 332,000 with the 4-week moving average falling to 347,000, the lowest level since early 2008. Continuing claims for regular state benefits fell 89,000 to 3.02 million. Look for another solid gain in payrolls in March.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-13	Jan-13	Dec-12	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.7%	0.2%	-0.3%	2.5%	2.2%	1.7%
Ex Food and Energy	0.2%	0.2%	0.1%	2.0%	1.3%	1.7%
Food	-0.5%	0.7%	-0.8%	-2.3%	2.4%	2.6%
Energy	3.0%	-0.4%	-0.6%	8.1%	4.1%	1.1%
Consumer Goods	0.9%	0.2%	-0.3%	3.1%	2.7%	2.0%
Capital Equipment	0.1%	0.1%	0.0%	0.5%	0.5%	0.9%
Intermediate Goods	1.3%	0.0%	0.1%	5.9%	3.2%	1.1%
Ex Food & Energy	0.7%	0.3%	0.3%	5.1%	3.4%	0.7%
Energy	3.6%	-0.3%	0.0%	13.3%	4.7%	1.2%
Crude Goods	-0.3%	0.8%	1.4%	7.6%	7.9%	0.8%
Ex Food & Energy	-1.7%	-0.3%	1.4%	-2.4%	0.2%	-5.0%
Energy	2.2%	2.3%	2.6%	32.2%	19.0%	0.5%

Source: Bureau of Labor Statistics