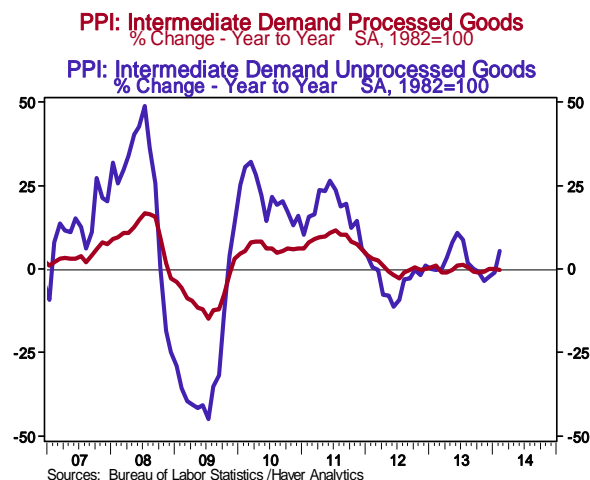
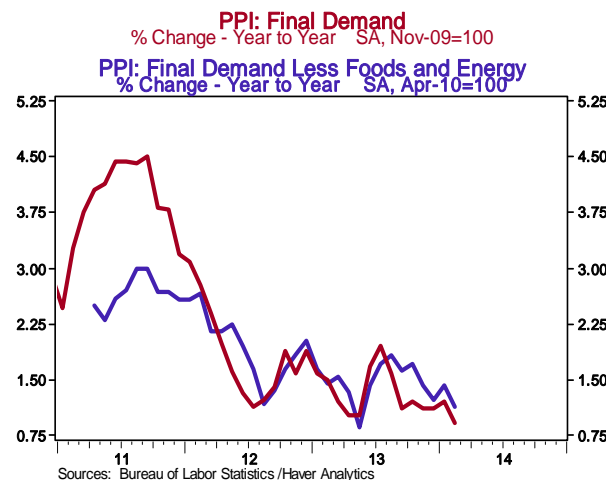


February PPI

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- The Producer Price Index (PPI) declined 0.1% in February, coming in below the consensus expected gain of 0.2%. Producer prices are up 0.9% versus a year ago.
- The decline in the PPI in February was all due to services, which dropped 0.3%, led lower by trade services, down 1.0%. Goods, which include food and energy, were up 0.4%.
- In the past year, prices for goods are up 0.6% while service prices are up 1.0%. Private capital equipment prices increased 0.1% in February and are up 1.8% in the past year.
- Prices for core intermediate processed goods rose 0.6% in February and are up 0.4% versus a year ago. Prices for core unprocessed goods decreased 0.7% in February, and are down 3.3% versus a year ago.

Implications: The impact of the new final-demand format, introduced last month for reporting producer prices, came to the forefront in today's report. The old PPI format only included prices for goods prices, which increased 0.4% in February and are up at a 5.1% annual rate in the past three months. But the new format includes both goods and services, combined; in fact, services now account for more than 60% of the index. As a result, with service prices falling 0.3% in February, the price index for overall final demand dipped 0.1%. "Core" prices, which exclude food and energy, were down 0.2%. Given the dip in the headline PPI index for February, some analysts will say the Federal Reserve should stop tapering quantitative easing, because inflation still appears below its target of 2%. We think this would be a mistake. If anything, the Fed should be considering an acceleration in the pace of tapering, so quantitative easing ends well before the end of the year. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth. Despite the negative inflation headline, intermediate demand prices for processed goods continue to climb, up at 7.2% annual rate over the past three months, though prices still remain tame compared to year-ago levels. Unprocessed goods, led by fuel and nonfood materials, rose 5.7% in February and are up at a 41.3% annual rate in the past three months. For now, service prices are holding down broad price gains at the producer level, but, given loose monetary policy, service prices should eventually turn up as well.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-14	Jan-14	Dec-13	3-mo % Ch.	6-mo % Ch.	Yr to Yr
				Jan-14	Jan-14	% Change
Final Demand	-0.1%	0.2%	0.1%	0.7%	0.9%	0.9%
Goods	0.4%	0.4%	0.4%	5.1%	2.1%	0.6%
- Ex Food & Energy	0.2%	0.4%	0.3%	3.4%	1.9%	1.2%
Services	-0.3%	0.1%	-0.1%	-1.1%	0.2%	1.0%
Private Capital Equipment	0.1%	0.2%	0.1%	1.5%	0.9%	1.8%
Intermediate Demand						
Processed Goods	0.7%	0.6%	0.5%	7.2%	2.6%	0.0%
- Ex Food & Energy	0.6%	0.3%	0.2%	4.0%	1.8%	0.4%
Unprocessed Goods	5.7%	0.9%	2.3%	41.3%	12.7%	5.5%
- Ex Food & Energy	-0.7%	1.4%	0.6%	5.6%	1.7%	-3.3%
Services	0.2%	0.0%	0.1%	1.1%	1.1%	1.2%

Source: Bureau of Labor Statistics