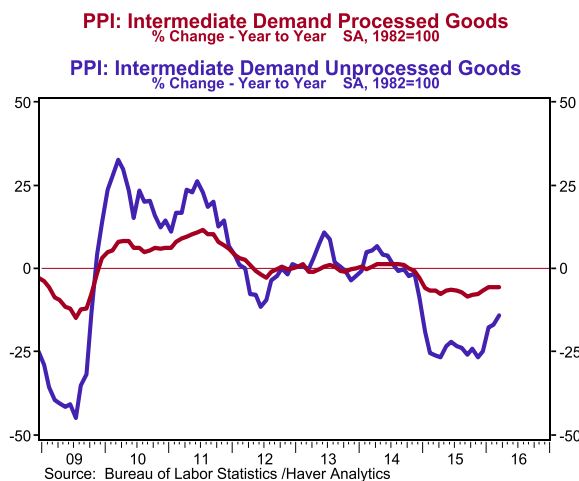
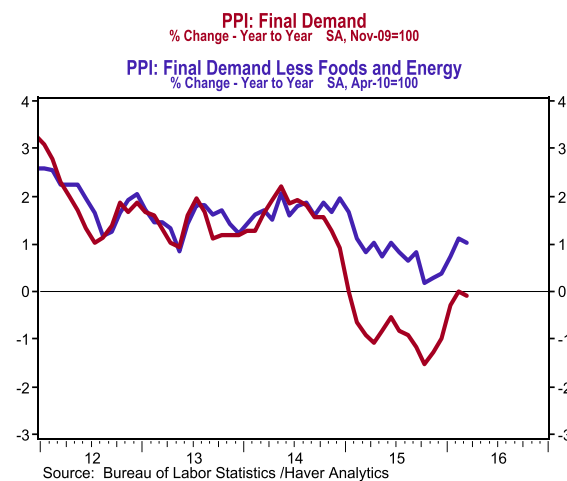


March PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Producer Price Index (PPI) declined 0.1% in March, coming in below the consensus expected rise of 0.2%. Producer prices are down 0.1% versus a year ago.
- The decline in producer prices in March was led by final demand services, down 0.2%. Energy prices rose 1.8% in March while food prices declined 0.9%. Producer prices excluding food and energy declined 0.1%.
- In the past year, prices for goods are down 2.6%, while prices for services are up 1.2%. Private capital equipment prices fell 0.5% in March but are up 1.1% in the past year.
- Prices for intermediate processed goods declined 0.2% in March and are down 5.5% versus a year ago. Prices for intermediate unprocessed goods rose 2.5% in March but are down 14.0% versus a year ago.

Implications: March was an unusual month for the producer price index, with service prices falling for the first time in five months while goods prices rose for the first time since last June. On net, producer prices declined 0.1% in March, and are also down 0.1% in the past year. The 0.2% decline in service prices in March was almost entirely due to declining margins in trade services (among wholesalers and retailers). Goods prices moved higher in March, led by energy, which rose 1.8%. And given the trend in oil prices through the first half of April, it looks like energy will push goods prices higher in next month’s report as well. While the Fed pays attention to the overall index, they place a greater weight on “core” prices, which exclude the volatile food and energy components. In March, a 0.9% decline in food prices, offset the gain in energy, resulting in the “core” measure showing a 0.1% decline, but these prices remain up 1.0% in the past year. So while inflation remains modest, the U.S. is not experiencing deflation, and rising energy prices may push inflation up at a faster pace than many are expecting. In short, the Fed shouldn’t view the lack of headline inflation as a reason to hold off on further rate hikes. In other recent news, import prices rose 0.2% in March but remain down 6.2% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 2.7% from a year ago even excluding petroleum. Export prices were unchanged in March and are down 6.1% from a year ago.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Mar-16	Feb-16	Jan-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.1%	-0.2%	0.1%	-0.7%	-0.5%	-0.1%
Goods	0.2%	-0.6%	-0.7%	-4.0%	-3.8%	-2.6%
- Ex Food & Energy	0.1%	0.1%	0.0%	0.7%	0.0%	0.4%
Services	-0.2%	0.0%	0.5%	1.5%	1.3%	1.2%
Private Capital Equipment	-0.5%	0.4%	0.6%	2.2%	2.6%	1.1%
Intermediate Demand						
Processed Goods	-0.2%	-0.7%	-1.2%	-8.1%	-7.4%	-5.5%
- Ex Food & Energy	-0.1%	-0.4%	-0.5%	-4.0%	-3.4%	-2.9%
Unprocessed Goods	2.5%	-2.1%	-0.7%	-1.2%	-17.4%	-14.0%
- Ex Food & Energy	2.1%	0.3%	0.0%	9.9%	-9.3%	-9.9%
Services	-0.3%	0.3%	1.1%	4.4%	2.0%	1.4%

Source: Bureau of Labor Statistics