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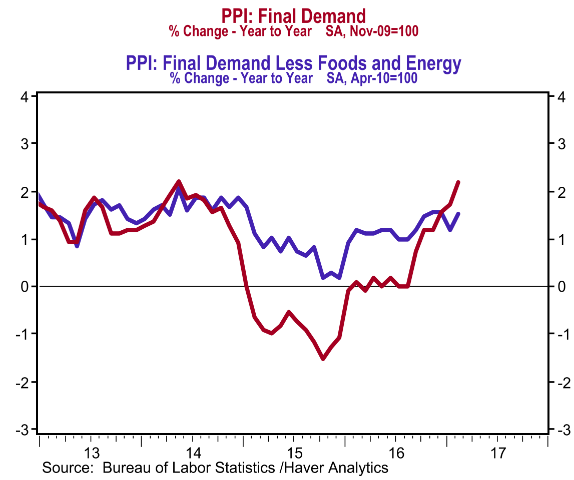
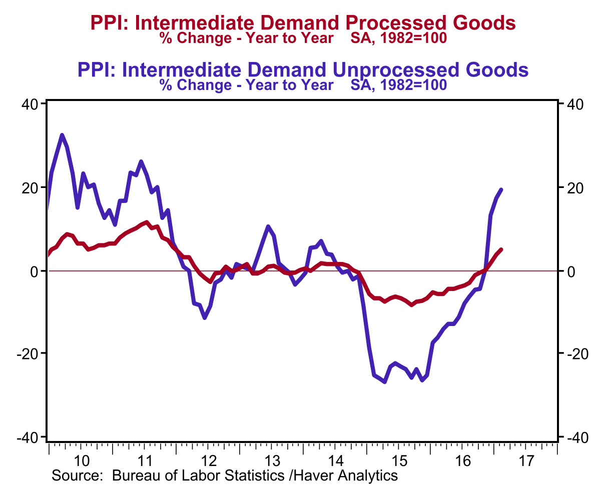
# February PPI

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

- The Producer Price Index (PPI) rose 0.3% in February, coming in well above the consensus expected increase of 0.1%. Producer prices are up 2.2% versus a year ago.
- Energy prices increased 0.6% in February, while food prices rose 0.3%. Producer prices excluding food and energy rose 0.3%.
- In the past year, prices for goods are up 4.0%, while prices for services are up 1.3%. Private capital equipment prices increased 0.2% in February and are up 0.7% in the past year.
- Prices for intermediate processed goods rose 0.4% in February and are up 5.1% versus a year ago. Prices for intermediate unprocessed goods declined 0.2% in February but are up 19.3% versus a year ago.

**Implications**: If there was even a smidgen of doubt the Fed will raise rates at tomorrow's meeting, today's report on inflation should put it to rest. Producer prices rose 0.3% in February and are up more than 2.0% on a year-ago basis for the first time since early 2014. And unlike in recent months, energy wasn't the only key contributor to rising prices. Service prices rose 0.4% in February as prices for traveler accommodations and chemical wholesaling saw significant increases. After modest price increases throughout the second half of 2016, service prices have started to pick up pace, rising at a 3.3% annual rate over the past three months compared to a 1.3% rate in the past twelve months. Goods prices also rose in February, up 0.3%, with the 0.6% increase in energy prices representing more than half the gain. Stripping out the volatile food and energy components shows "core" prices rose 0.3% in February and are up at a 2.9% annual rate in the past three months. While the primary focus is usually on final demand prices, costs earlier in the production process are rising as well, with both processed and unprocessed goods showing the largest 12-month price increases in more than five years. These input costs will continue to put pressure on final demand prices in the months ahead. There is always some volatility from month-to-month, but we expect the trend of rising costs in both the goods and service sectors to continue in the coming months, holding overall inflation at or above the Fed's 2% inflation target and keeping the Fed on track for three (and possibly four) rate hikes in 2017.




| Producer Price Index<br>*All Data Seasonally Adjusted* | Feb-17 | Jan-17 | Dec-16 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| ***Final Demand*** | **0.3%** | 0.6% | 0.2% | 4.4% | 3.5% | 2.2% |
| ***Goods*** | **0.3%** | 1.0% | 0.6% | 7.6% | 5.7% | 4.0% |
| ***- Ex Food & Energy*** | **0.1%** | 0.4% | 0.3% | 2.9% | 2.2% | 2.0% |
| ***Services*** | **0.4%** | 0.3% | 0.1% | 3.3% | 2.5% | 1.3% |
| ***Private Capital Equipment*** | **0.2%** | -0.1% | 0.4% | 1.8% | 2.2% | 0.7% |
| ***Intermediate Demand*** | | | | | | |
| ***Processed Goods*** | **0.4%** | 1.1% | 0.4% | 8.3% | 6.2% | 5.1% |
| ***- Ex Food & Energy*** | **0.5%** | 0.3% | 0.2% | 3.9% | 3.6% | 2.9% |
| ***Unprocessed Goods*** | **-0.2%** | 3.8% | 8.4% | 59.4% | 22.5% | 19.3% |
| ***- Ex Food & Energy*** | **1.4%** | 3.2% | 3.5% | 37.9% | 14.9% | 18.7% |
| ***Services*** | **0.5%** | 0.3% | 0.4% | 5.1% | 2.7% | 1.9% |

*Source: Bureau of Labor Statistics*