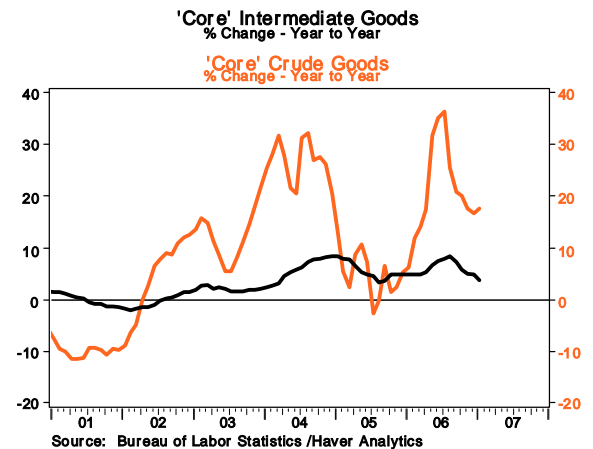
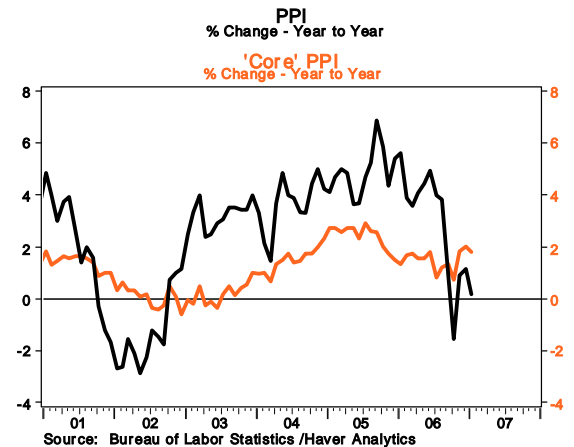


JANUARY PPI

Chief Economist - Brian S. Wesbury
Senior Economist - Robert Stein, CFA
Economic Research Analyst - Trevor D. Scott

- As the consensus expected, the Producer Price Index (PPI) fell 0.6% in January. The PPI is up only 0.2% versus a year ago but has climbed 8.7% at an annual rate in the past three months.
- The drop in January was entirely due to a 4.6% decline in energy prices. The “core” PPI was up 0.2%, also meeting the consensus forecast, and is up 1.8% versus a year ago.
- Consumer goods prices, excluding energy, increased 0.5% in January and are up 4.1% at an annual rate in the past six months. Capital equipment prices increased 0.2% in January and are up at an annual rate of 3.2% in the past six months..
- “Core” intermediate goods prices were unchanged in January, are down at a 1.4% rate in the past three months, but up 3.8% versus a year ago. “Core” crude prices increased 1.6% in January, are up at a 10.5% rate the past three months, and are up 17.9% versus a year ago.

Implications: We believe investors should look past the low headline PPI number to the underlying data and the “core” measures, particularly those for capital, intermediate and crude goods, which suggest more upward pressure on inflation is already in the pipeline. Excluding volatile energy prices, PPI inflation is 2% for finished goods, 3.9% for intermediate goods and 11.7% for crude goods. This is not an environment in which the Federal Reserve should be complacent about inflation.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jan-07	Dec-06	Nov-06	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.6%	0.9%	1.8%	8.7%	-0.9%	0.2%
<i>Ex Food and Energy</i>	0.2%	0.2%	1.1%	6.2%	2.8%	1.8%
Food	1.1%	1.5%	0.1%	11.1%	7.3%	2.7%
Energy	-4.6%	2.2%	6.0%	14.2%	-17.6%	-6.6%
Consumer Goods	-0.9%	1.1%	2.0%	9.2%	-2.3%	-0.5%
Capital Equipment	0.2%	0.1%	1.4%	7.0%	3.2%	2.2%
Intermediate Goods	-0.7%	0.5%	0.6%	2.0%	-2.8%	1.2%
<i>Ex Food & Energy</i>	0.0%	0.0%	-0.4%	-1.4%	0.4%	3.8%
Energy	-3.8%	2.5%	4.1%	10.9%	-16.3%	-8.6%
Crude Goods	-6.3%	2.8%	15.5%	53.6%	-2.8%	-8.0%
<i>Ex Food & Energy</i>	1.6%	0.5%	0.4%	10.5%	-4.4%	17.9%
Energy	-16.2%	5.6%	35.8%	108.5%	-17.9%	-25.7%

Source: Bureau of Labor Statistics