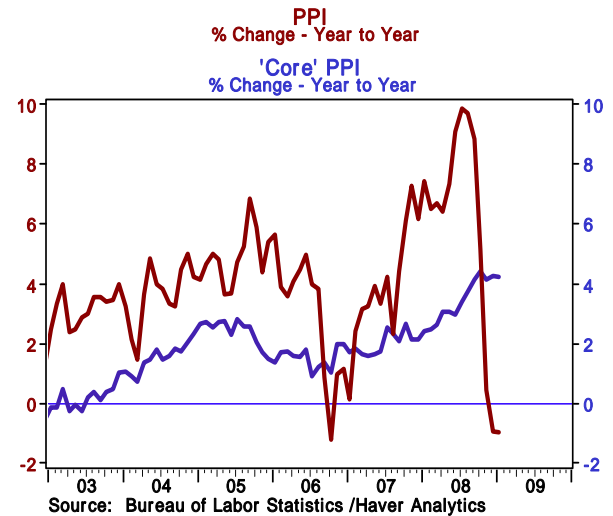


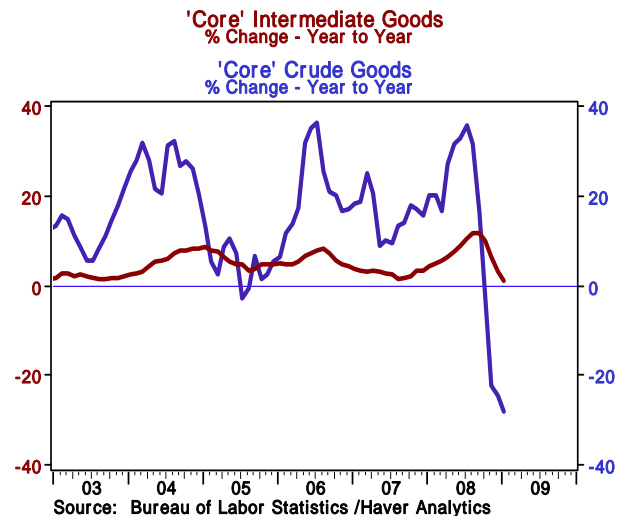
JANUARY PPI

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- The Producer Price Index (PPI) increased 0.8% in January, far above the consensus expected gain of 0.3%. The PPI is down 1.0% versus a year ago.
- Most of the January rise in the PPI was attributable to energy, which increased 3.7%. Food prices declined 0.4%. The “core” PPI, which excludes food and energy, increased 0.4% in January and is up 4.2% versus last year.
- Consumer goods prices increased 1.0% in January but are down 2.4% versus last year. Capital equipment prices rose 0.5% in January and are up 4.0% versus a year ago.
- Intermediate goods prices fell 0.7% in January and are down 3.7% in the past year. Crude prices fell 2.9% in January and are down 28.9% versus last year.



Implications: The collapse of velocity in late 2008 caused a sharp decline in both economic activity and inflation. In the 4th quarter the producer price index for finished goods fell 19% at an annual rate, but after 5 consecutive months of declining producer prices they increased in January by 0.8%. This could be a sign that monetary velocity has either stopped falling or has started to pick up. If true this increase, along with the increase in January retail sales, would signal that demand is reviving and the most intense period of the economic contraction is behind us. Although most of the rise in producer prices can be attributed to energy, “core” prices (excluding food and energy) rose 0.4% and are up 4.2% in the past twelve months. “Core” crude prices also increased for the first time in six months, although just by 0.1%. The underlying inflation problem that preceded the collapse in monetary velocity has not gone away and a resurgence of inflation will follow the eventual acceleration in economic growth. In other news this morning, initial claims for unemployment insurance were unchanged at 627,000 last week. Meanwhile, continuing claims increased 170,000 to 4.987 million. These figures suggest another very large loss in payrolls during February.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jan-09	Dec-08	Nov-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.8%	-1.9%	-2.5%	-13.3%	-13.0%	-1.0%
Ex Food and Energy	0.4%	0.2%	0.1%	2.9%	4.0%	4.2%
Food	-0.4%	-1.4%	0.2%	-6.2%	-2.7%	2.0%
Energy	3.7%	-9.1%	-12.4%	-53.5%	-52.9%	-19.2%
Consumer Goods	1.0%	-2.5%	-3.2%	-17.7%	-17.5%	-2.4%
Capital Equipment	0.5%	0.1%	0.1%	3.1%	3.9%	4.0%
Intermediate Goods	-0.7%	-4.2%	-4.3%	-31.5%	-26.3%	-3.7%
Ex Food & Energy	-1.1%	-2.9%	-2.2%	-22.2%	-13.2%	1.2%
Energy	1.5%	-9.8%	-12.3%	-58.5%	-58.1%	-20.3%
Crude Goods	-2.9%	-5.3%	-12.6%	-58.5%	-70.6%	-28.9%
Ex Food & Energy	0.1%	-2.2%	-20.8%	-63.8%	-67.0%	-27.8%
Energy	-8.1%	-5.9%	-18.6%	-75.6%	-85.1%	-39.7%

Source: Bureau of Labor Statistics