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# JANUARY PPI

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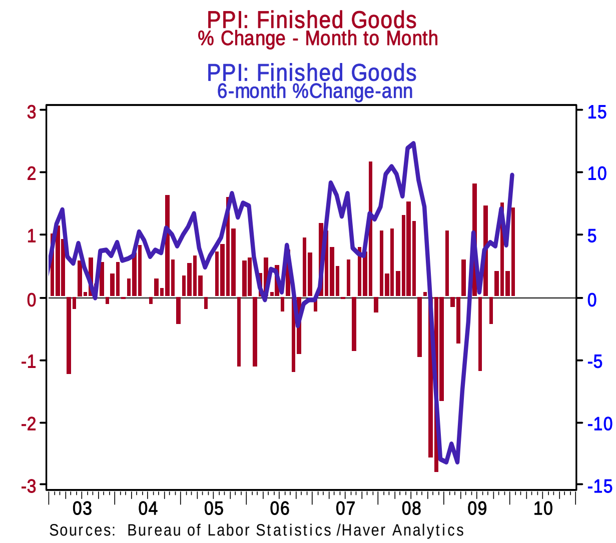
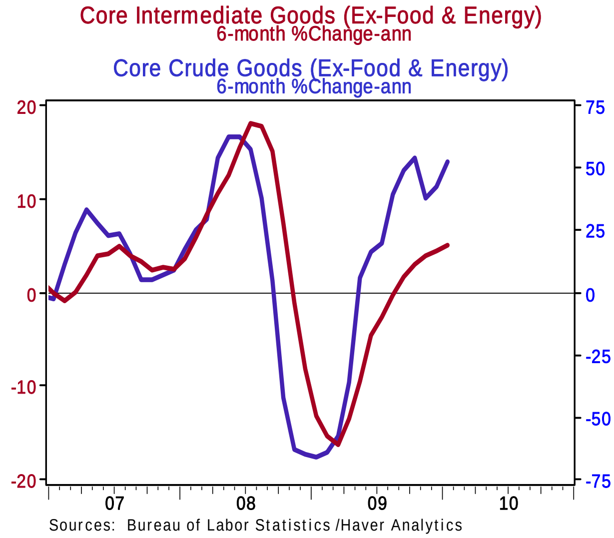
- The Producer Price Index (PPI) increased 1.4% in January, well above the consensus expected 0.8%. The PPI is up 4.6% versus a year ago, and is up at a 9.8% annual rate in the past six months.
- The January increase in the PPI was mostly due to energy, which increased 5.1%. Food prices increased 0.4%. The "core" PPI, which excludes food and energy, was up 0.3%.
- Consumer goods prices increased 1.8% in January and are up at a 18.4% annual rate in the past three months. Capital equipment prices increased 0.3% in January and are up at a 2.3% rate in the past three months.
- Intermediate goods prices increased 1.7% in January and are up at a 12.2% annual rate in the past six months. Crude prices increased 9.6% in January and are up at a 58.6% rate in the past six months.




**Implications:** Producer prices surged in January, showing that the Federal Reserve is increasingly behind the curve. Prices are up at a 9.8% annual rate in the past six months. Excluding the oil price spike in late-2007/early-2008, that's the fastest increase in almost thirty years. This can mean only one thing: expect the Fed and its apologists to start deflecting attention away from the awful headline numbers by focusing on "core" prices, which exclude food and energy. For example, they will point out that core prices are up only 1% versus a year ago. However, it will be tough for them to make this argument for long. Core prices are up at a 3.3% annual rate in the past three months and there is more price pressure farther up the production pipeline. In the past six months, core intermediate goods prices are up at a 5.2% annual rate while core crude goods are up at a 52.7% pace. Instead of focusing on its own bearish projections about the labor market, the Fed needs to take notice of the inflation already in plain sight. Without a change in policy, the Fed could be making another serious mistake, similar to the 1% interest rate mistake after the last recession. In other news this morning, new claims for unemployment insurance increased 31,000 to 473,000. The four-week moving average ticked down to 468,000, a drop of more than 100,000 versus six months ago. Continuing claims for regular state benefits were unchanged at 4.56 million.




| **Producer Price Index** *All Data Seasonally Adjusted* | Jan-10 | Dec-09 | Nov-09 | 3-mo % Ch. *annualized* | 6-mo % Ch. *annualized* | Yr to Yr *% Change* |
|---|---|---|---|---|---|---|
| *Finished Goods* | **1.4%** | 0.4% | 1.5% | 14.0% | 9.8% | 4.6% |
| *Ex Food and Energy* | **0.3%** | 0.0% | 0.5% | 3.3% | 1.1% | 1.0% |
| *Food* | **0.4%** | 1.3% | 0.5% | 8.9% | 8.2% | 1.5% |
| *Energy* | **5.1%** | 0.7% | 5.6% | 56.2% | 41.2% | 21.5% |
| *Consumer Goods* | **1.8%** | 0.5% | 1.9% | 18.4% | 13.4% | 6.4% |
| *Capital Equipment* | **0.3%** | -0.1% | 0.4% | 2.3% | 0.4% | 0.1% |
| *Intermediate Goods* | **1.7%** | 0.6% | 1.2% | 15.0% | 12.2% | 4.9% |
| *Ex Food & Energy* | **0.5%** | 0.5% | 0.3% | 5.1% | 5.2% | 1.1% |
| *Energy* | **6.9%** | 0.5% | 4.5% | 58.9% | 44.0% | 21.4% |
| *Crude Goods* | **9.6%** | 0.8% | 5.1% | 81.7% | 58.6% | 25.1% |
| *Ex Food & Energy* | **6.6%** | 4.5% | -1.0% | 47.7% | 52.7% | 35.1% |
| *Energy* | **16.8%** | -2.8% | 12.2% | 163.9% | 94.4% | 39.4% |

*Source: Bureau of Labor Statistics*