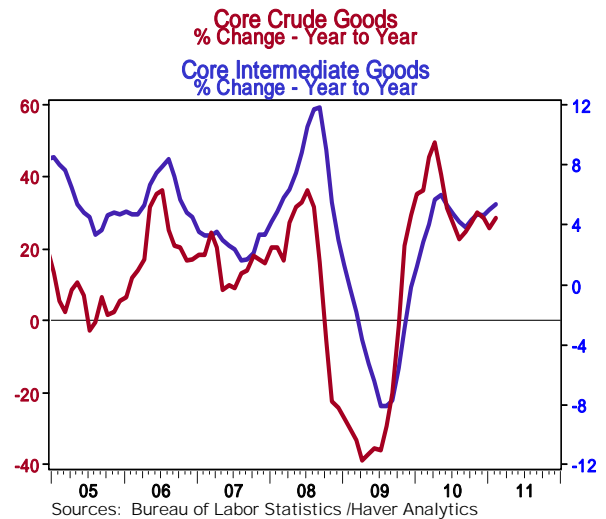
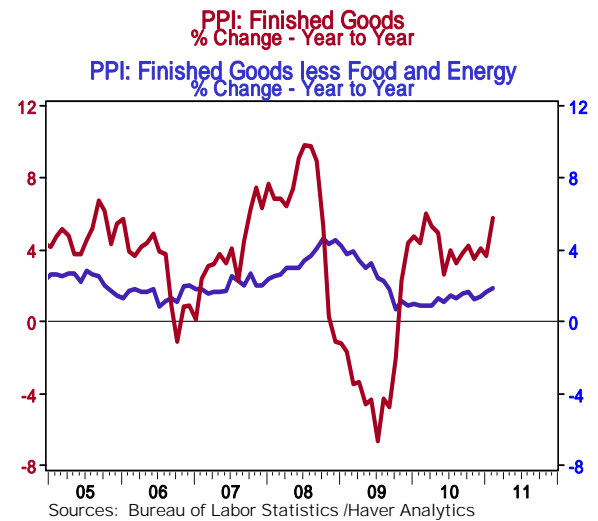


FEBRUARY PPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) increased 1.6% in February, smashing the consensus expected gain of 0.7%. Producer prices are up 5.6% versus a year ago.
- The February rise in the PPI was led by food and energy prices. Food prices increased 3.9% while energy increased 3.3%. The “core” PPI, which excludes food and energy, increased 0.2%, matching consensus expectations.
- Consumer goods prices rose 2.1% in February and are up 7.3% versus last year. Capital equipment prices were up 0.1% in February and are up 0.8% in the past year.
- Core intermediate goods prices increased 1.1% in February and are up 5.4% versus a year ago. Core crude prices increased 2.3% in February and are up 28.4% in the past twelve months.

Implications: The inflation problem at the producer level continues to worsen. In the past year producer prices are up 5.6%, and the data clearly show accelerating inflation. Producer prices are up at a 10% annual rate in the past six months and a 13.8% rate in the past three months. Although the Federal Reserve can still claim “core” inflation is low for consumers, they can’t say the same at the producer level. While much of the gain was due to food and energy, the core PPI, which excludes food and energy, still increased 0.2% in February and is up at a 4% annual rate in the past three months. Meanwhile, further up the production pipeline, core intermediate prices increased 1.1% in February and are up at a 10.9% annual pace in the past three months; core crude prices increased 2.3% in February and are up at a staggering 47% rate in the past three months. Based on these inflation signals and the current state of the economy, the Fed’s monetary policy is completely inappropriate. In other recent inflation news, import prices increased 1.5% in February and are up 5.3% versus a year ago. This is not all due to oil. Ex-petroleum, import prices were up 1.1% in February and up 3.2% in the past year. Export prices increased 1.2% in February and are up 6.8% versus a year ago. Excluding agriculture, export prices were up 0.9% in February and 5.3% in the past year.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-11	Jan-11	Dec-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.6%	0.8%	0.9%	13.8%	10.0%	5.6%
Ex Food and Energy	0.2%	0.5%	0.2%	4.0%	1.7%	1.8%
Food	3.9%	0.3%	0.8%	21.7%	15.4%	7.4%
Energy	3.3%	1.8%	2.8%	36.3%	29.8%	15.3%
Consumer Goods	2.1%	0.9%	1.2%	18.1%	13.5%	7.3%
Capital Equipment	0.1%	0.3%	0.1%	2.3%	0.4%	0.8%
Intermediate Goods	2.0%	1.1%	0.9%	17.0%	14.1%	7.9%
Ex Food & Energy	1.1%	1.0%	0.4%	10.9%	8.4%	5.4%
Energy	4.3%	1.8%	2.4%	39.6%	32.4%	15.7%
Crude Goods	3.4%	3.3%	6.5%	67.5%	47.3%	16.0%
Ex Food & Energy	2.3%	4.0%	3.5%	47.0%	46.2%	28.4%
Energy	0.9%	1.9%	14.4%	92.3%	44.5%	-1.3%

Source: Bureau of Labor Statistics