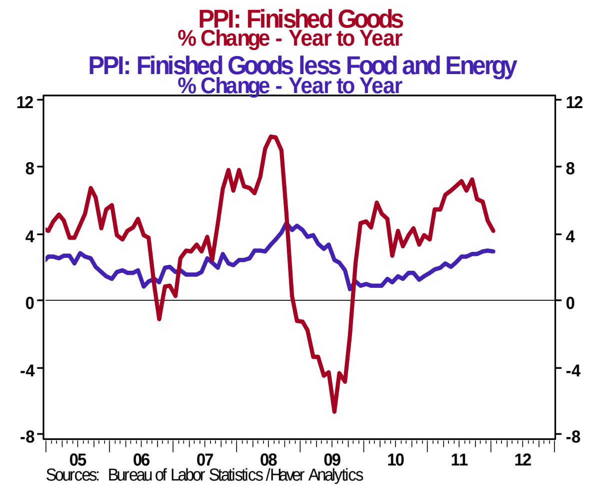
First Trust DATAWATCH

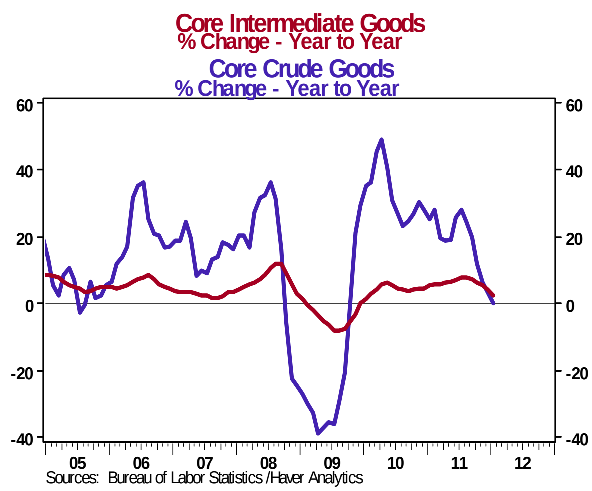
February 16, 2012 • 630.517.7756 • www.ftportfolios.com

# January PPI

**Brian S. Wesbury** – Chief Economist
**Robert Stein, CFA** – Senior Economist
**Strider Elass** – Economic Analyst

- The Producer Price Index (PPI) rose 0.1% in January, coming in below the consensus expected gain of 0.4%. Producer prices are up 4.1% versus a year ago.
- Food prices dipped 0.3% in January while energy prices fell 0.5%. Despite these declines, the overall PPI increased, largely due to pharmaceuticals and light trucks. The "core" PPI, which excludes food and energy, increased 0.4%.
- Consumer goods prices were unchanged in January but are up 4.7% versus last year. Capital equipment prices rose 0.4% in January and are up 2.3% in the past year.
- Core intermediate goods prices fell 0.1% in January, but are up 2.7% versus a year ago. Core crude prices were up 0.6% in January, but are unchanged versus a year ago.




**Implications**: Forget about producer prices for a second. New claims for unemployment insurance dropped 13,000 last week to 348,000, the lowest level since March 2008. The four-week average dropped to 365,000. Continuing claims fell 100,000 to 3.43 million, the lowest since August 2008. These figures suggest continued robust gains in payrolls for February. On the inflation front, today's figures on producer prices were just plain weird. Given the increase in oil prices in January, the consensus expected a gain of 0.4% in overall producer prices. But the government says energy prices went down instead, mostly due to lower home heating costs, both for natural gas and home heating oil. As a result, the overall PPI was up only 0.1%. Meanwhile, a surge in pharmaceutical drug and light truck prices helped push up "core" producer prices (which excludes food and energy), by 0.4%, which was more than the consensus expected 0.2% gain. Again, just an odd report, with many components that will probably reverse over the next few months. Overall producer prices are up 4.1% from a year ago. However, given the rapid increase in prices early last year, the year-ago comparisons on prices will probably show slower inflation for the next several months. In the meantime, you'll probably see some stories about how the Federal Reserve was right all along and that inflation is not a problem. Don't believe them. Given the loose stance of monetary policy, we think PPI inflation will be heading north again later in the year. Ironically, the Fed itself can't see today's report as good news on inflation. It says it focuses on core prices, which are up 3% from a year ago and up at a 3.2% annual rate in the past three months. We continue to believe the Fed has no room to implement another round of quantitative easing.

| Producer Price Index<br>*All Data Seasonally Adjusted* | Jan-12 | Dec-11 | Nov-11 | 3-mo % Ch.<br>*annualized* | 6-mo % Ch.<br>*annualized* | Yr to Yr<br>*% Change* |
|---|---|---|---|---|---|---|
| ***Finished Goods*** | **0.1%** | -0.1% | 0.2% | 0.8% | 2.2% | 4.1% |
| ***Ex Food and Energy*** | **0.4%** | 0.3% | 0.1% | 3.2% | 2.3% | 3.0% |
| ***Food*** | **-0.3%** | -0.9% | 1.2% | 0.2% | 3.0% | 5.3% |
| ***Energy*** | **-0.5%** | -0.4% | -0.4% | -5.0% | 1.0% | 6.2% |
| ***Consumer Goods*** | **0.0%** | -0.2% | 0.2% | 0.2% | 2.3% | 4.7% |
| ***Capital Equipment*** | **0.4%** | 0.2% | 0.0% | 2.3% | 1.5% | 2.3% |
| ***Intermediate Goods*** | **-0.4%** | -0.2% | 0.0% | -2.6% | -2.6% | 4.4% |
| ***Ex Food & Energy*** | **-0.1%** | -0.5% | -0.4% | -3.9% | -2.9% | 2.7% |
| ***Energy*** | **-1.4%** | 0.6% | 1.1% | 1.1% | -3.2% | 8.4% |
| ***Crude Goods*** | **1.5%** | -1.5% | 2.6% | 10.9% | 3.0% | 4.8% |
| ***Ex Food & Energy*** | **0.6%** | -0.1% | -2.2% | -6.8% | -9.1% | 0.0% |
| ***Energy*** | **1.6%** | -1.0% | 6.9% | 33.3% | 10.4% | 1.5% |

*Source: Bureau of Labor Statistics*