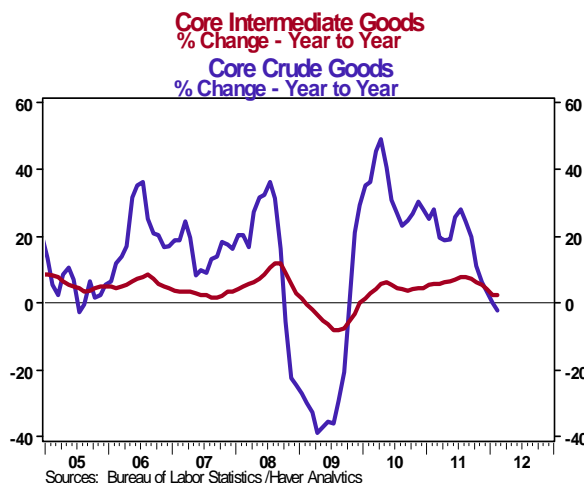
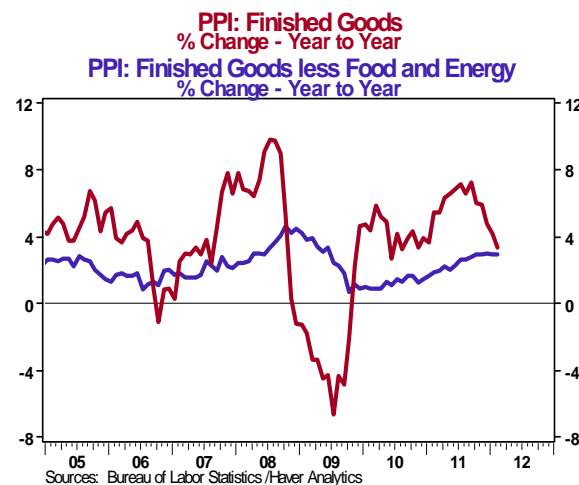


February PPI

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- The Producer Price Index (PPI) rose 0.4% in February, coming in slightly below the consensus expected gain of 0.5%. Producer prices are up 3.3% versus a year ago.
- The rise in PPI in February was mostly due to a 1.3% increase in energy prices. Food prices fell 0.1%. The “core” PPI, which excludes food and energy, rose 0.2%.
- Consumer goods prices were up 0.5% in February and are up 3.6% versus last year. Capital equipment prices rose 0.1% in February and are up 2.2% in the past year.
- Core intermediate goods prices rose 1.0% in February and are up 2.5% versus a year ago. Core crude prices were down 0.3% in February, and are down 2.5% versus a year ago.

Implications: Forget about producer prices for a second. New claims for unemployment insurance dropped 14,000 last week to 351,000, the lowest level since March 2008. The four-week average remained at 356,000. Continuing claims fell 81,000 to 3.34 million, the lowest since August 2008. These figures suggest continued robust gains in payrolls for March. Back to inflation,...what is the Fed thinking? The PPI was up 0.4% in February, the largest increase in five months, with most of the gain largely due to energy prices. And there's obviously more of that coming in March. “Core” prices, which exclude food and energy, and which the Fed focuses more attention on, were still up 0.2% in February. They're also up 3% from last year and an even faster 3.6% rate over the last three months. Overall producer prices are up 3.3% from a year ago. We continue to believe the Fed has no room to implement another round of quantitative easing. In other recent inflation news, import prices were up 0.4% in February. All of the gain was due to oil. Ex-petroleum prices dipped 0.2%. In the past year, overall import prices are up 5.5% while ex-petroleum prices are up only 1.6%. Export prices increased 0.4% in February and are up 1.5% in the past year. Ex-agriculture, export prices were up 0.5% in February and are up 2.6% in the past year. Due to loose monetary policy, we think these inflation measures will head upward later this year. In other news today, the Empire State index, a measure of manufacturing activity in New York, increased to +20.2 from +19.5 in February. The Philly Fed index, a measure of activity in that region, increased to +12.5 in March from +10.2. Both indices beat consensus expectations.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-12	Jan-12	Dec-11	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.4%	0.1%	-0.1%	1.5%	2.5%	3.3%
Ex Food and Energy	0.2%	0.4%	0.3%	3.6%	2.2%	3.0%
Food	-0.1%	-0.3%	-0.9%	-4.9%	0.8%	1.6%
Energy	1.3%	-0.5%	-0.4%	1.9%	4.6%	5.8%
Consumer Goods	0.5%	0.0%	-0.2%	1.2%	2.9%	3.6%
Capital Equipment	0.1%	0.4%	0.2%	2.8%	1.8%	2.2%
Intermediate Goods	0.7%	-0.4%	-0.2%	0.4%	-0.2%	3.4%
Ex Food & Energy	1.0%	-0.1%	-0.5%	1.9%	-0.7%	2.5%
Energy	0.3%	-1.4%	0.6%	-2.3%	2.0%	5.5%
Crude Goods	0.4%	1.5%	-1.5%	1.7%	5.6%	1.6%
Ex Food & Energy	-0.3%	0.6%	-0.1%	0.9%	-10.7%	-2.5%
Energy	0.3%	1.6%	-1.0%	3.6%	25.9%	-0.8%

Source: Bureau of Labor Statistics