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January PPI

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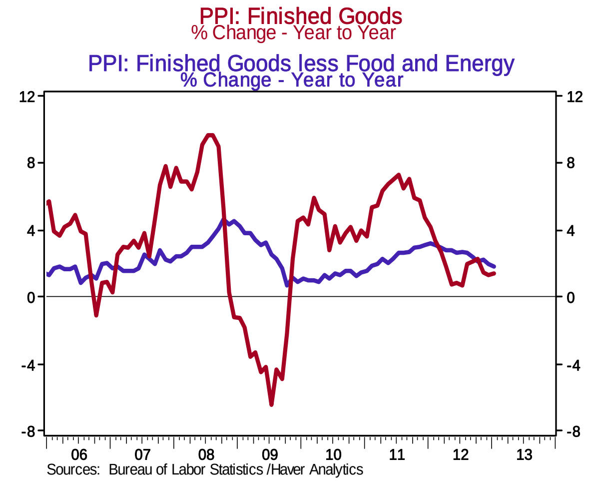
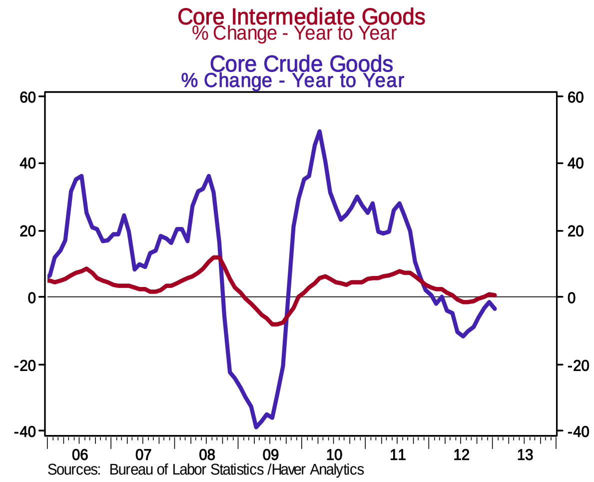
- The Producer Price Index (PPI) rose 0.2% in January, coming in slightly below the consensus expected gain of 0.3%. Producer prices are up 1.4% versus a year ago.
- The increase in the overall PPI was due to food and pharmaceuticals, which rose 0.7% and 3.5% respectively. Energy prices fell 0.4%. The "core" PPI, which excludes food and energy, was up 0.2%.
- Consumer goods prices were up 0.2% in January, while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 1.5% while capital equipment prices are up 1.1%.
- Core intermediate goods prices were up 0.3% in January and are up 0.7% versus a year ago. Core crude prices fell 0.3% in January, and are down 3.7% versus a year ago.

Implications: Despite a continued drop in energy prices, overall producer prices rose 0.2% in January, the first upward move in four months. Given higher energy prices so far in February, we anticipate another larger gain in overall prices in next month's report. "Core" prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were also up 0.2% in January and tell a somewhat different story than the overall PPI. In the past year, overall producer prices are up 1.4% while core prices are up 1.8%. But, in the past three months, energy prices have pushed down overall producer prices to a -1.8% annual rate even as core prices rose at a 2% rate. Some analysts may suggest that with the overall PPI up only 1.4% from a year ago that the Federal Reserve has room for the new round of bond buying it announced a couple of months ago. We think this is a mistake. Core prices are likely to continue growing at roughly the recent pace. Food inflation has been moving upward and may continue to do so given recent improvement in emerging economies, and energy prices are now headed upward again as well. Monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding even more excess reserves to the banking system is not going to boost economic growth. Given the loose stance of monetary policy, higher inflation is eventually on the way.





Producer Price Index All Data Seasonally Adjusted	Jan-13	Dec-12	Nov-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Finished Goods	**0.2%**	-0.3%	-0.4%	-1.8%	2.9%	1.4%
Ex Food and Energy	**0.2%**	0.1%	0.2%	2.0%	1.0%	1.8%
Food	**0.7%**	-0.8%	1.3%	5.1%	5.0%	3.0%
Energy	**-0.4%**	-0.6%	-3.3%	-16.0%	6.3%	-0.9%
Consumer Goods	**0.2%**	-0.3%	-0.6%	-2.8%	3.9%	1.5%
Capital Equipment	**0.1%**	0.0%	0.2%	1.0%	0.2%	1.1%
Intermediate Goods	**0.0%**	0.1%	-0.9%	-2.9%	2.5%	0.4%
Ex Food & Energy	**0.3%**	0.3%	-0.1%	2.1%	1.8%	0.7%
Energy	**-0.3%**	0.0%	-3.6%	-15.1%	4.5%	-2.2%
Crude Goods	**0.8%**	1.4%	0.4%	10.6%	19.1%	1.4%
Ex Food & Energy	**-0.3%**	1.4%	1.3%	10.1%	8.8%	-3.7%
Energy	**2.3%**	2.6%	-0.3%	20.0%	31.3%	-1.4%

Source: Bureau of Labor Statistics