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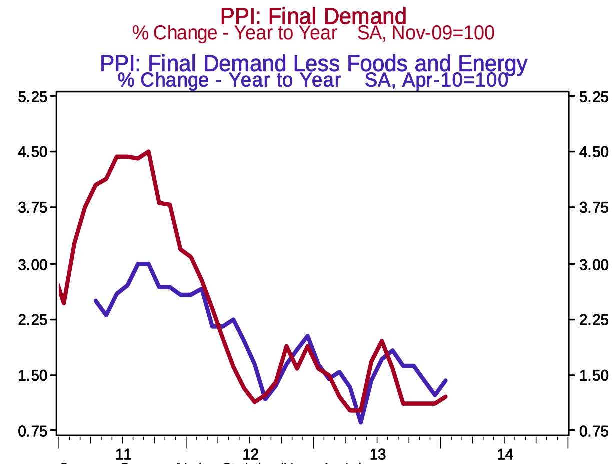
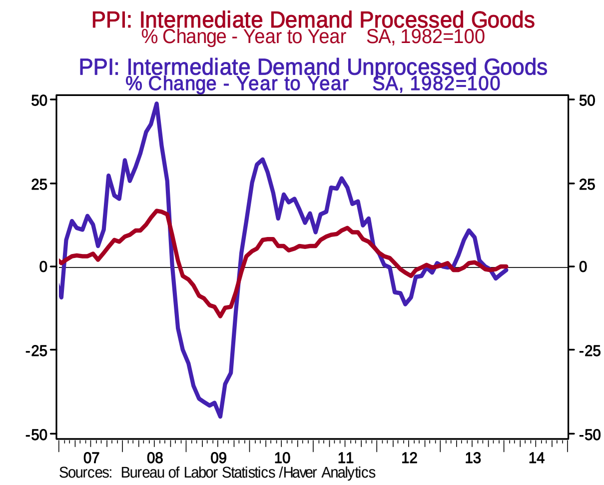
January PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Producer Price Index (PPI) rose 0.2% in January versus a consensus expected 0.1%. Producer prices are up 1.2% versus a year ago.
- Food prices led the way, up 1.0%, while energy as well as "core" goods, which exclude food and energy, were both up 0.4%. Service prices rose 0.1%.
- In the past year, goods prices are up 0.9% while services prices are up 1.3%. Private capital equipment prices were up 0.2% in January and are up 1.5% in the past year.
- Prices for core intermediate goods rose 0.3% in January and are up 0.4% versus a year ago. Prices for core unprocessed goods increased 1.4% in January, but are down 3.4% versus a year ago.





Implications: With this morning's release, the government made major changes to their method for calculating and reporting producer prices. By including services and construction, producer prices now cover a broader part of the economy. Producer prices continued to move higher in January, building on the strong increases in December. Food, energy, and core goods were all up significantly while services were up only 0.1%. Producer prices for goods increased 0.4% in January and are up at 2.9% annual rate in the past three months. Final demand "core" prices were up 0.2% in January, the largest single-month jump in four months. However, despite the outsized increases in January, producer prices are up only 1.2% in the past year. Intermediate demand prices have been heating up over the past three months, but remain tame compared to year-ago levels. As a result, some analysts will say the Federal Reserve should stop tapering quantitative easing, because inflation still appears below its target of 2%. We think this would be a mistake. If anything, the Fed should be considering an acceleration in the pace of tapering, so quantitative easing ends well before the end of this year. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth. Today's producer price report does not signal the onset of hyperinflation, but it does support the case for inflation moving higher more rapidly than the Fed now expects.

Producer Price Index *All Data Seasonally Adjusted*	Jan-14	Dec-13	Nov-13	3-mo % Ch. *Jan-14*	6-mo % Ch. *Jan-14*	Yr to Yr *% Change*
Final Demand	**0.2%**	0.1%	0.0%	1.1%	0.9%	1.2%
Goods	**0.4%**	0.4%	-0.2%	2.9%	1.4%	0.9%
- Ex Food & Energy	**0.4%**	0.3%	0.0%	2.6%	1.5%	1.3%
Services	**0.1%**	-0.1%	0.1%	0.4%	0.6%	1.3%
Private Capital Equipment	**0.2%**	0.1%	-0.4%	-0.4%	0.9%	1.5%
Intermediate Demand						
Processed Goods	**0.6%**	0.5%	-0.4%	2.6%	1.3%	0.3%
- Ex Food & Energy	**0.3%**	0.2%	-0.1%	1.2%	0.9%	0.4%
Unprocessed Goods	**0.9%**	2.3%	-2.0%	4.3%	-2.0%	-0.9%
- Ex Food & Energy	**1.4%**	0.6%	1.2%	13.7%	3.0%	-3.4%
Services	**0.0%**	0.1%	0.0%	0.4%	1.1%	0.9%

Source: Bureau of Labor Statistics