

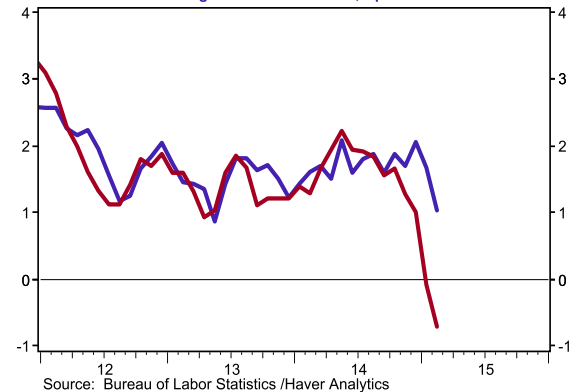
February PPI

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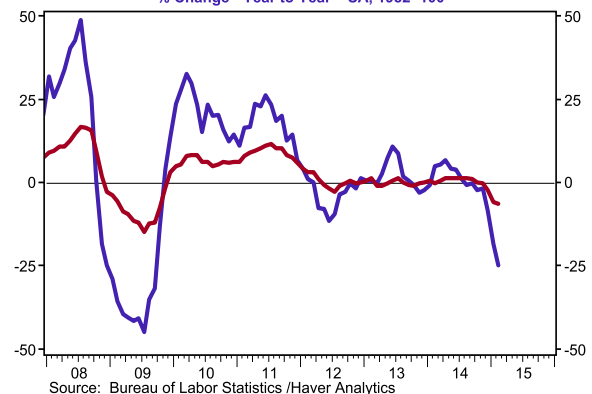
- The Producer Price Index (PPI) declined 0.5% in February, coming in below the consensus expected gain of 0.3%. Producer prices are down 0.7% versus a year ago.
- Food prices fell 1.6% in February while energy prices were unchanged. Producer prices excluding food and energy declined 0.5% in February, led by service prices.
- In the past year, prices for services are up 1.3%, while prices for goods are down 4.3%. Private capital equipment prices declined 0.3% in February but are up 0.7% in the past year.
- Prices for intermediate processed goods declined 0.6% in February, and are down 6.5% versus a year ago. Prices for intermediate unprocessed goods fell 3.9% in February, and are down 25.0% versus a year ago.

Implications: If you're looking for inflation, you're not going to find it in producer prices, at least not yet. Producer prices fell 0.5% in February following a 0.8% drop in January. As a result, producer prices are down 0.7% from a year ago. The huge drop in energy prices since mid-2014 is the key reason producer prices are down in the past year. Energy prices are down 22.4% from a year ago, while everything excluding energy is up 1%. This suggests that when oil prices stabilize for a prolonged period of time that the overall producer price index will start rising again. However, that didn't happen in February as prices for services fell 0.5%, the largest one-month decline since the new series began in 2009. The decline in services was led by trade services, which measure changes in the margins received by wholesalers and retailers. Prices for goods also fell in February, and have now declined for eight consecutive months. Most of the decline in goods prices in February can be attributed to food, which fell 1.6%. The new version of the producer prices index, which includes services, appears to be much more volatile than the old one, which suggests analysts and investors should not reach conclusions based on short-term gyrations in the numbers, including the fact that overall prices are now down from a year ago. Monetary policy remains loose and will continue to be loose even when the Federal Reserve starts raising rates this June. For this reason, these rate hikes will not hurt the economy. Fed policy will not become tight for at least a few years. Counterintuitively, higher short term rates may boost lending as potential borrowers hurry up their plans to avoid even higher interest rates further down the road. In other words, the Plow Horse economy won't stop when the Fed shifts gears. As a result, we believe producer price inflation will soon go positive again and then gradually move higher from there. In the meantime, prices further up the production pipeline remain subdued. Prices for intermediate processed goods are down 6.5% in the past year while prices for unprocessed goods are down 25%. Regardless, with the labor market improving, we still believe the Fed is on track to start raising rates in June.

PPI: Final Demand
 % Change - Year to Year SA, Nov-09=100
PPI: Final Demand Less Foods and Energy
 % Change - Year to Year SA, Apr-10=100



PPI: Intermediate Demand Processed Goods
 % Change - Year to Year SA, 1982=100
PPI: Intermediate Demand Unprocessed Goods
 % Change - Year to Year SA, 1982=100



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-15	Jan-15	Dec-14	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.5%	-0.8%	-0.2%	-5.6%	-3.2%	-0.7%
Goods	-0.4%	-2.1%	-1.1%	-13.7%	-9.4%	-4.3%
- Ex Food & Energy	-0.1%	-0.2%	0.1%	-0.7%	-0.2%	0.5%
Services	-0.5%	-0.2%	0.3%	-1.4%	0.2%	1.3%
Private Capital Equipment	-0.3%	0.1%	0.0%	-0.7%	0.4%	0.7%
Intermediate Demand						
Processed Goods	-0.6%	-2.8%	-1.6%	-18.1%	-13.0%	-6.5%
- Ex Food & Energy	-0.4%	-1.3%	-0.6%	-8.7%	-5.4%	-2.2%
Unprocessed Goods	-3.9%	-9.4%	-4.6%	-52.5%	-37.1%	-25.0%
- Ex Food & Energy	-5.2%	-0.7%	-0.4%	-22.8%	-19.0%	-11.4%
Services	0.1%	-0.2%	0.1%	0.0%	0.6%	1.2%

Source: Bureau of Labor Statistics