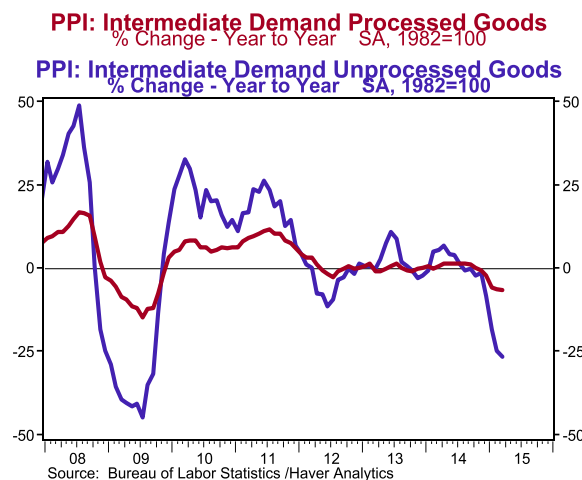
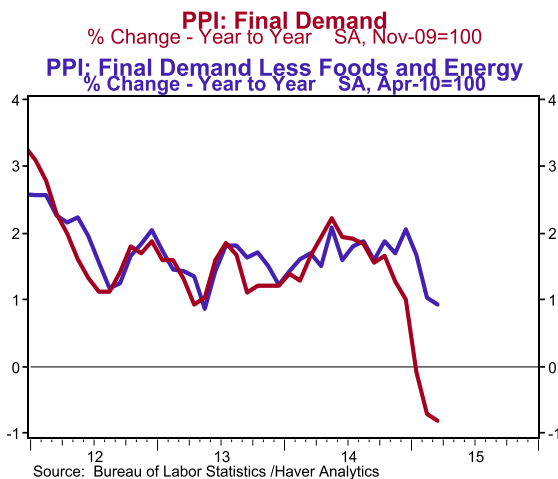


# March PPI

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

- The Producer Price Index (PPI) increased 0.2% in March, matching consensus expectations. Producer prices are down 0.8% versus a year ago.
- Energy prices rose 1.5% in March while food prices declined 0.8%. Producer prices excluding food and energy rose 0.2%.
- In the past year, prices for services are up 0.9%, while prices for goods are down 4.3%. Private capital equipment prices were unchanged in March but are up 0.7% in the past year.
- Prices for intermediate processed goods declined 0.1% in March, and are down 6.6% versus a year ago. Prices for intermediate unprocessed goods fell 1.7% in March, and are down 26.6% versus a year ago.

**Implications:** After falling four months in a row, producer prices finally moved higher in March. The key reason was that energy prices finally moved higher, the first time that’s happened since mid-2014. In the meantime, energy prices are still down 21.7% versus a year ago, so it shouldn’t be any surprise that overall producer prices are still down 0.8% from last year. Food prices are also down 4.4% from a year ago. Outside of food and energy, prices are up from a year ago, but not much. Service prices have increased 0.9% while “core” goods, which exclude food and energy, are up 0.6%. This suggests that as oil prices stabilize the overall producer price index will move higher. Outside of the energy sector, price increases in March were led by autos on the goods side and both portfolio management and loan services in the service sector. The other reason to suspect higher inflation readings in the year ahead is that monetary policy is loose and will remain loose even after the Federal Reserve starts raising short-term interest rates. Counterintuitively, higher short-term rates may boost economic growth. Monetary velocity – how quickly the money supply circulates through the economy – should pick up 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. In the meantime, prices further up the production pipeline remain subdued. Prices for intermediate processed goods are down 6.6% in the past year while prices for unprocessed goods are down 26.6%. Look for these figures to turn up soon.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Mar-15</b>	<b>Feb-15</b>	<b>Jan-15</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Final Demand</b>	<b>0.2%</b>	-0.5%	-0.8%	-4.3%	-2.5%	-0.8%
<b>Goods</b>	<b>0.3%</b>	-0.4%	-2.1%	-8.6%	-8.7%	-4.3%
- Ex Food & Energy	<b>0.2%</b>	-0.1%	-0.2%	-0.4%	-0.2%	0.6%
<b>Services</b>	<b>0.1%</b>	-0.5%	-0.2%	-2.2%	0.9%	0.9%
<b>Private Capital Equipment</b>	<b>0.0%</b>	-0.3%	0.1%	-0.7%	0.9%	0.7%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>-0.1%</b>	-0.6%	-2.8%	-13.0%	-12.9%	-6.6%
- Ex Food & Energy	<b>-0.2%</b>	-0.4%	-1.3%	-7.4%	-5.7%	-2.2%
<b>Unprocessed Goods</b>	<b>-1.7%</b>	-3.9%	-9.4%	-46.4%	-39.4%	-26.6%
- Ex Food & Energy	<b>-2.3%</b>	-5.2%	-0.7%	-28.7%	-22.9%	-13.1%
<b>Services</b>	<b>0.2%</b>	0.1%	-0.2%	0.4%	1.1%	1.0%

Source: Bureau of Labor Statistics