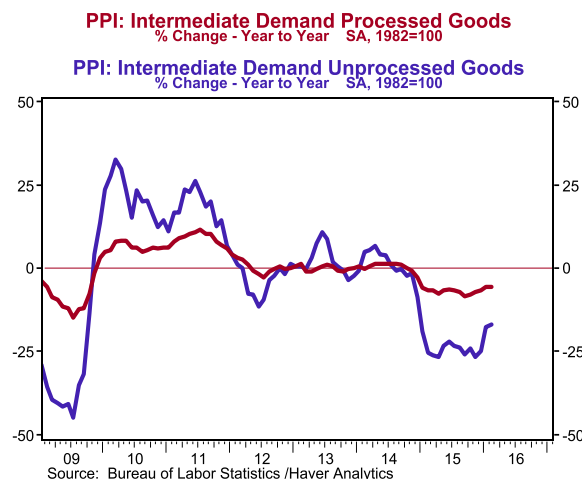
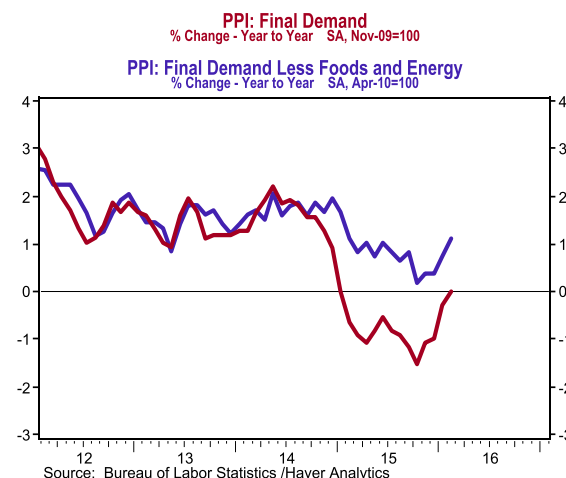


February PPI

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- The Producer Price Index (PPI) declined 0.2% in February, matching consensus expectations. Producer prices are unchanged versus a year ago.
- The decline in producer prices in February was led by final demand goods, down 0.6%. Energy prices fell 3.4% in February while food prices declined 0.3%. Producer prices excluding food and energy rose 0.1%.
- In the past year, prices for goods are down 2.8%, while prices for services are up 1.5%. Private capital equipment prices rose 0.4% in February and are up 1.5% in the past year.
- Prices for intermediate processed goods declined 0.7% in February and are down 5.6% versus a year ago. Prices for intermediate unprocessed goods dropped 2.1% in February and are down 16.7% versus a year ago.

Implications: Heading into two days of Fed meetings, today’s report on producer prices should do little to change the conversation for Yellen and company. Producer prices declined 0.2% in February, but once again energy caused the drop. Energy prices fell 3.4% in February as gasoline prices plunged 15.1%. Take out just energy, and producer prices were unchanged in February. Some pundits will argue that, with the headline number down in four of the last six months, further rate hikes should be on hold for the foreseeable future. We disagree. A look at prices outside the energy sector shows a different picture, with declines in just one of the past six months and two of the past twelve. In other words, energy prices are distorting the overall inflation picture, and when energy prices stabilize and rise, inflation will move higher at a faster pace than many investors expect. Final demand service prices were unchanged in February after rising the past three months. The pace of inflation from the service sector, up 1.5% in the past year and up a faster 2.6% at an annual rate in the past three months, comes in sharp contrast to the goods sector. The “core” measure of producer prices, which excludes both the volatile food and energy components, remained unchanged in February and is up 1.1% in the past twelve months. So while inflation remains modest, the U.S. is not experiencing deflation. In other recent news, import prices declined 0.3% in February and are down 6.1% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 2.9% from a year ago even excluding petroleum. Export prices declined 0.4% in February and are down 6.0% from a year ago.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Feb-16	Jan-16	Dec-15	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.2%	0.1%	-0.2%	-1.1%	-1.3%	0.0%
Goods	-0.6%	-0.7%	-0.7%	-7.5%	-6.1%	-2.8%
- Ex Food & Energy	0.1%	0.0%	0.1%	0.7%	-0.2%	0.2%
Services	0.0%	0.5%	0.1%	2.6%	1.5%	1.5%
Private Capital Equipment	0.4%	0.6%	0.5%	6.1%	3.8%	1.5%
Intermediate Demand						
Processed Goods	-0.7%	-1.2%	-1.0%	-11.2%	-9.5%	-5.6%
- Ex Food & Energy	-0.4%	-0.5%	-0.3%	-4.6%	-4.2%	-3.1%
Unprocessed Goods	-2.1%	-0.7%	-3.4%	-22.0%	-24.8%	-16.7%
- Ex Food & Energy	0.3%	0.0%	-1.4%	-4.5%	-13.3%	-13.1%
Services	0.3%	1.1%	0.1%	5.9%	1.4%	1.9%

Source: Bureau of Labor Statistics