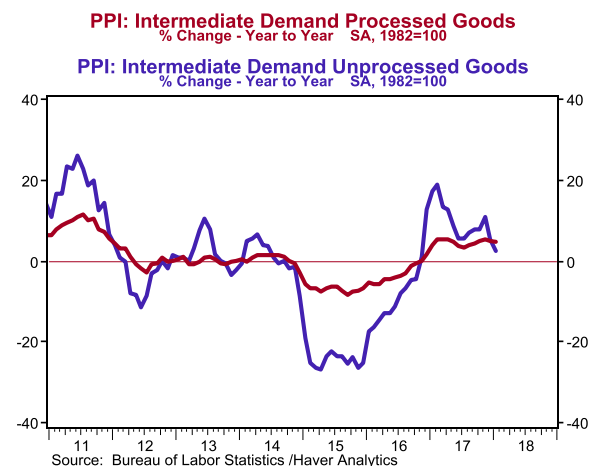
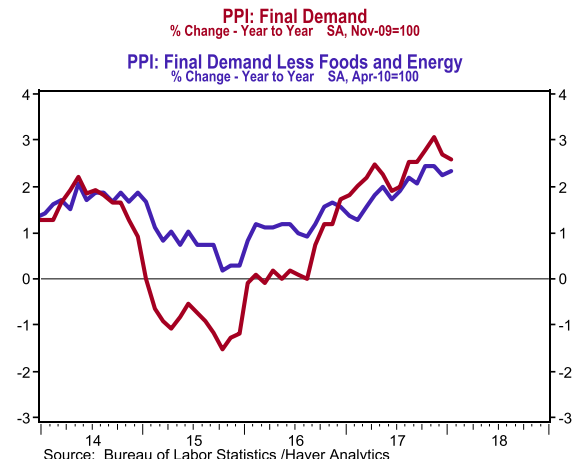


January PPI

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- The Producer Price Index (PPI) rose 0.4% in January, matching consensus expectations. Producer prices are up 2.7% versus a year ago.
- Energy prices rose 3.4% in January, while food prices declined 0.2%. Producer prices excluding food and energy increased 0.4%.
- In the past year, prices for goods are up 3.3%, while prices for services are up 2.3%. Private capital equipment prices increased 0.5% in January and are up 2.5% in the past year.
- Prices for intermediate processed goods rose 0.7% in January and are up 4.6% versus a year ago. Prices for intermediate unprocessed goods increased 0.9% in January and are up 2.5% versus a year ago.

Implications: Producer prices jumped in January, rising 0.4% as nearly every major category showed increased prices. And producer prices are up 2.7% in the past year, exceeding the Fed’s 2% inflation target. This follows suit with [yesterday’s CPI report](#) that shows inflation pressures have been picking up of late, and it’s not difficult to see why. The Federal Reserve is running an incredibly loose monetary policy. Yes, the Fed Funds rate is slowly and steadily on the rise, but there are still more than two trillion dollars of excess reserves in the banking system, and monetary policy won’t be tight until that excess slack is removed. This is especially true because anti-bank attitudes and regulation have been reversed, which reduces the headwinds to monetary growth. To put it mildly, new Fed Chair Jerome Powell and the rest of the FOMC have their work cut out for them. Taking a look at the details of today’s PPI report shows rising costs for hospital services, apparel, and gasoline leading the way. Energy, led by a 7.1% jump in gasoline prices, increased 3.4% in January. Meanwhile food prices declined 0.2% in January. Strip out the typically volatile food and energy groupings, and “core” producer prices rose 0.4% in January and are up 2.2% in the past year. For comparison, “core” prices rose 1.4% in the twelve months ending January 2017, and were up 0.8% in the twelve months ending January 2016. And a look further down the pipeline shows the trend higher should continue in the year to come. Intermediate processed goods rose 0.7% in January and are up 4.6% from a year ago, while unprocessed goods increased 0.9% in January and are up 2.5% in the past year. Both categories have seen a pickup in price increases over the past six and three-month periods. Given these figures, and with employment growth remaining strong and inflation rising, we expect four rate hikes in 2018. On the jobs front, initial jobless claims rose 7,000 last week to 230,000, while continuing claims rose 15,000 to 1.942 million. Both measures remain near the lowest levels seen in decades, so look for another solid jobs report in February, although heavy snow in parts of the country might put some temporary downward pressure on payrolls for the month. If so, don’t fall into the trap of thinking the good times are over. Job gains should rebound in the following months.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jan-18	Dec-17	Nov-17	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.4%	0.0%	0.4%	3.2%	3.8%	2.7%
Goods	0.7%	0.1%	0.9%	7.0%	6.2%	3.3%
- Ex Food & Energy	0.2%	0.2%	0.3%	2.5%	2.5%	2.1%
Services	0.3%	-0.1%	0.2%	1.8%	2.7%	2.3%
Private Capital Equipment	0.5%	0.1%	-0.2%	1.8%	2.9%	2.5%
Intermediate Demand						
Processed Goods	0.7%	0.5%	0.5%	6.8%	7.3%	4.6%
- Ex Food & Energy	0.3%	0.4%	0.3%	4.2%	4.4%	3.7%
Unprocessed Goods	0.9%	1.9%	3.0%	25.8%	11.0%	2.5%
- Ex Food & Energy	3.8%	1.4%	0.9%	27.6%	10.9%	8.7%
Services	0.1%	0.0%	0.5%	2.4%	2.6%	2.9%

Source: Bureau of Labor Statistics