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March PPI

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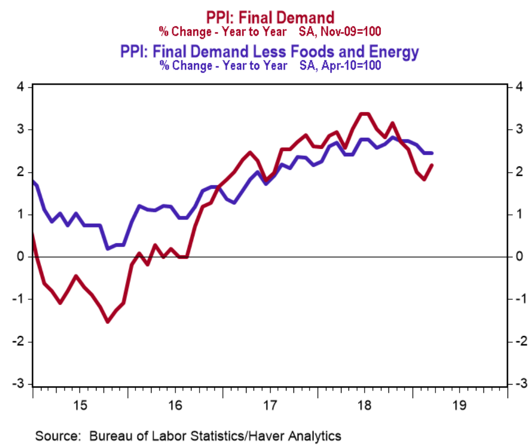
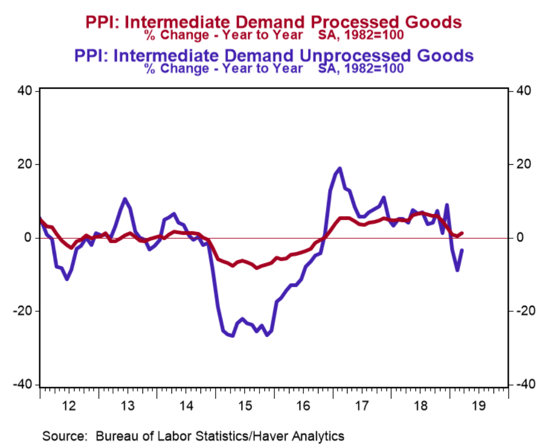
- The Producer Price Index (PPI) increased 0.6% in March, coming in well above the consensus expected rise of 0.3%. Producer prices are up 2.2% versus a year ago.
- Energy prices rose 5.6% in March, while food prices increased 0.3%. Producer prices excluding food and energy rose 0.3% in March and are up 2.4% in the past year.
- In the past year, prices for goods are up 1.3%, while prices for services are up 2.5%. Private capital equipment prices rose 0.1% in March and are up 2.9% in the past year.
- Prices for intermediate processed goods rose 0.8% in March and are up 1.3% versus a year ago. Prices for intermediate unprocessed goods rose 2.3% in March but are down 3.5% versus a year ago.





Implications: Hold off on a PPI for a minute. The biggest news this morning is that initial claims for unemployment dropped below 200,000 for the first time since Americans were still basking in the afterglow of Neil Armstrong's 1969 moon landing. Continuing claims, meanwhile, fell 13,000 to 1.713 million. Both of these figures suggest another month of solid job growth in April. Now on to the producer price index, which rose a whopping 0.6% in March on the back of higher gas prices. For comparison, that represents the second largest single-month increase since late 2012. And while energy prices were the major driver in March, prices rose virtually across the board. Strip out the typically volatile prices for food (up 0.3% in March) and energy (up 5.6%), and "core" prices rose 0.3% from February. In the past year, producer prices are up 2.2%, while core prices are up 2.4%. In other words, regardless of which measure you prefer, inflation is running modestly above the Fed's 2% inflation target. And this is a trend, not the result of short-term volatility. "Core" prices have now exceeded the 2% target for twenty consecutive months. Outside of energy, the March increase in producer prices was led by trade services (think margins to wholesalers), while machinery, equipment, and parts also moved higher. In fact, transportation and warehousing was the only major category to show a decline in March, falling 0.8%. Notably, private capital equipment prices are up 2.9% in the past year, the fastest year-over-year growth of any major category, possibly signaling rising demand for business investment which will provide a boost to economic activity in the year ahead. Given these readings, we think many investors are severely mistaken in their belief that the Fed will cut rates before the end of the year. The data – for employment, inflation, and GDP growth – suggest further rate hikes are the far more likely path forward.

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Mar-19	Feb-19	Jan-19	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**0.6%**	0.1%	-0.1%	2.4%	2.2%	2.2%
Goods	**1.0%**	0.4%	-0.8%	2.5%	0.7%	1.3%
- Ex Food & Energy	**0.2%**	0.1%	0.3%	2.1%	1.7%	2.0%
Services	**0.3%**	0.0%	0.3%	2.4%	2.9%	2.5%
Private Capital Equipment	**0.1%**	0.0%	0.6%	2.8%	2.6%	2.9%
Intermediate Demand						
Processed Goods	**0.8%**	0.4%	-1.4%	-1.2%	-2.5%	1.3%
- Ex Food & Energy	**0.0%**	0.1%	-0.3%	-0.8%	-1.9%	1.6%
Unprocessed Goods	**2.3%**	-4.6%	-9.3%	-38.6%	-7.2%	-3.5%
- Ex Food & Energy	**1.2%**	-0.7%	-1.9%	-5.6%	3.7%	-2.9%
Services	**0.4%**	-0.1%	0.2%	2.4%	2.7%	2.6%

Source: Bureau of Labor Statistics