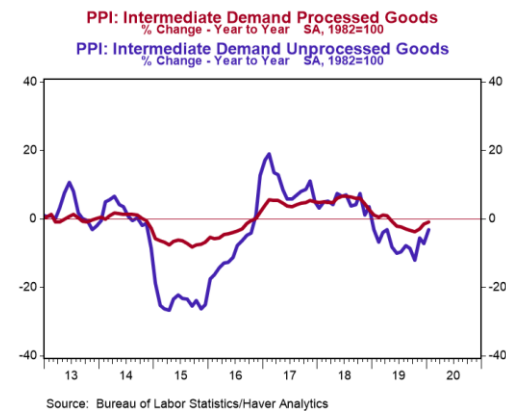
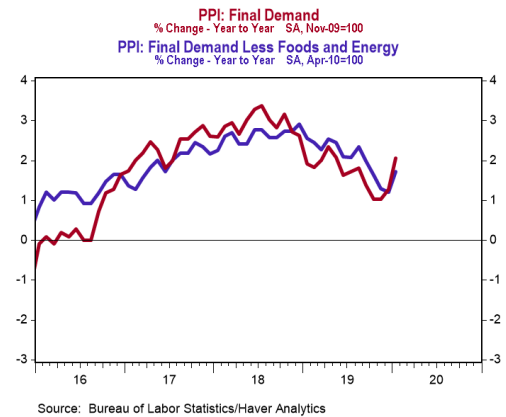


January PPI

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

- The Producer Price Index (PPI) rose 0.5% in January, coming in well above the consensus expected increase of 0.2%. Producer prices are up 2.1% versus a year ago.
- Energy prices declined 0.7% in January, while food prices rose 0.2%. Producer prices excluding food and energy rose 0.5% in January, and are up 1.7% in the past year.
- In the past year, prices for goods are up 1.8%, while prices for services have increased 2.0%. Private capital equipment prices rose 0.2% in January and are up 0.7% in the past year.
- Prices for intermediate processed goods declined 0.3% in January and are down 1.0% versus a year ago. Prices for intermediate unprocessed goods fell 0.6% in January and are down 3.2% versus a year ago.



Implications: Producer prices surged 0.5% in January, the largest monthly increase since late 2018. With the January rise, producer prices are up 2.1% in the past year, breaching the 2% level last seen in May of 2019. Services led prices higher in January, rising 0.7%, while prices for good increased 0.1%. Good prices were held lower by energy costs, which declined 0.7%. Food prices rose 0.2% in January, as rising costs for vegetables and grains more than offset a decline in prices for eggs. Strip out the typically volatile food and energy categories, and “core” prices also rose 0.5% in January, tied for the largest monthly increase since the series began back in 2010. Within core prices, the rise was led by margins to retailers, particularly apparel, jewelry, footwear, and accessories, which saw prices jump 10.3% in January. “Core” goods rose 0.3% in January, with prices for iron and steel scrap up 13.9%. In the past year, services prices are up 2.0% while goods prices are up 1.8%. Core prices as a whole are up 1.7% over the past twelve months. We expect core prices to follow the headline number toward 2% in 2020. Further down the pipeline, prices for intermediate demand processed goods declined 0.3%, while intermediate demand unprocessed goods fell 0.6%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels. Taken altogether, today’s report reinforces the Fed’s plan to leave rates unchanged in 2020. Core consumer inflation stands above 2% on a twelve-month basis, while core PCE prices (the Fed’s preferred measure) are up 1.6% in the past year. Paired with the very healthy employment market, these signal an economy with no need for more Fed rate cuts. In recent manufacturing news, the Empire State Index, which measures factory sentiment in the New York region, jumped to +12.9 in February from +4.8 in January as rising orders and shipments led the index higher. We’re still waiting in other regional surveys arriving late this month, but the gain in the Empire index hints at an increase in the national manufacturing index for February.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jan-20	Dec-19	Nov-19	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.5%	0.2%	-0.1%	2.4%	1.5%	2.1%
Goods	0.1%	0.3%	0.3%	2.8%	1.6%	1.8%
- Ex Food & Energy	0.3%	0.2%	0.1%	2.1%	0.9%	0.7%
Services	0.7%	0.0%	-0.3%	1.7%	1.5%	2.0%
Private Capital Equipment	0.2%	0.3%	-0.2%	1.0%	-0.5%	0.7%
Intermediate Demand						
Processed Goods	-0.3%	0.1%	0.1%	-0.4%	-0.7%	-1.0%
- Ex Food & Energy	0.3%	-0.2%	-0.3%	-0.6%	-1.1%	-1.7%
Unprocessed Goods	-0.6%	1.6%	4.0%	21.7%	5.1%	-3.2%
- Ex Food & Energy	5.6%	3.1%	0.2%	42.2%	12.2%	2.0%
Services	0.0%	0.4%	-0.1%	1.3%	1.0%	1.7%

Source: Bureau of Labor Statistics