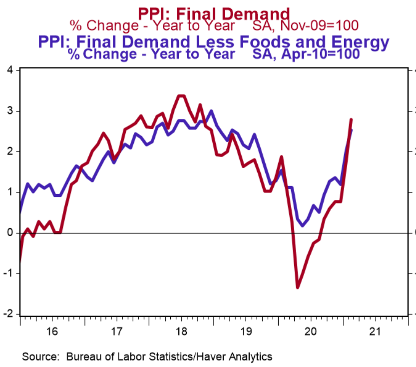
First Trust DATAWATCH

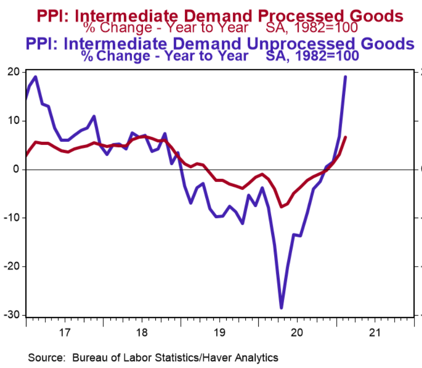
March 12, 2021 • 630.517.7756 • www.ftportfolios.com

February PPI

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

- The Producer Price Index (PPI) rose 0.5% in February, matching consensus expectations. Producer prices are up 2.8% versus a year ago.
- Energy prices rose 6.0% in February, while food prices increased 1.3%. Producer prices excluding food and energy rose 0.2% in February and are up 2.5% in the past year.
- In the past year, prices for goods are up 3.4%, while prices for services have risen 2.5%. Private capital equipment prices increased 0.3% in February and are up 1.6% in the past year.
- Prices for intermediate processed goods rose 2.7% in February and are up 6.6% versus a year ago. Prices for intermediate unprocessed goods increased 4.3% in February and are up 19.0% versus a year ago.





Implications: Producer prices rose 0.5% in February and are up 2.8% from a year ago, the fastest twelve-month increase since 2018. And prices are accelerating, up at a 5.4% annualized pace since the April 2020 lows, and up at an 8.6% annualized rate over the past three months. Prices for goods led the index higher in February, with the bulk of that rise coming from a 6.0% increase in energy costs (the index for gasoline alone increased 13.1%). The food index rose 1.3% in February as increased costs for beef and veal, chicken eggs, and poultry led the way. Prices for services moved a more modest 0.1% in February, coming off January's record-setting 1.3% increase. Within services, transportation and warehousing (+1.1%) was once again the key contributor to higher costs, but was largely offset by declining margins for apparel, jewelry, footwear, and accessories retailers. Look for higher year-ago comparisons on inflation in the next few months. Producer prices fell steeply in March and April last year. If we assume producer prices rise a modest 0.2% for each of the next two months (and given the 0.4% average move since the index turned last May, that is probably conservative), that would put prices up 4.9% year-to-year in April. However, don't expect that to change the Fed's plan to keep short-term rates near zero for the foreseeable future. The Fed wants inflation to trend above the 2% target for a prolonged period, while the labor market – the other side of the Fed's dual mandate – also has to heal considerably further to reach the point at which the Fed begins to seriously consider a move higher. Strip out the typically volatile food and energy categories, and "core" producer prices rose 0.2% in February, up 2.5% over the past twelve months, and up an annualized 3.4% since bottoming in April. Supply constraints and limitations on activity that are easing but still far from "normal" will continue to muddy the data, but what is clear is the massive increase in the M2 money supply, up more than 25% in the past year. And the latest fiscal stimulus brings even more money into the system. As reopening progresses we expect both headline and core inflation to run consistently above 2% on a twelve-month basis. The Federal Reserve is loose and, as it has made abundantly clear, plans to stay that way for the foreseeable future. Further down the pipeline, prices for intermediate demand processed goods rose 2.7% in February, while intermediate demand unprocessed goods rose 4.3% (and are up an astonishing 57.3% at an annualized rate over the past six months). Intermediate unprocessed goods are up 19.0% from a year ago, and have shown significant movement since bottoming at a 28.6% twelve-month decline back in April. Expect inflation pressures to remain a dominant topic of conversation throughout the year ahead. In other recent news on the labor market, initial jobless claims fell 42,000 last week while continuing claims declined 193,000. As we get deeper into 2021, expect to see some blowout positive numbers on job growth.

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Feb-21	Jan-21	Dec-20	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**0.5%**	1.3%	0.3%	8.6%	6.0%	2.8%
Goods	**1.4%**	1.4%	1.0%	16.6%	10.9%	3.4%
- Ex Food & Energy	**0.3%**	0.8%	0.5%	6.5%	4.4%	2.5%
Services	**0.1%**	1.3%	-0.1%	5.4%	3.7%	2.5%
Private Capital Equipment	**0.3%**	0.8%	0.2%	4.9%	2.2%	1.6%
Intermediate Demand						
Processed Goods	**2.7%**	1.7%	1.4%	25.5%	17.2%	6.6%
- Ex Food & Energy	**1.8%**	1.8%	1.2%	21.0%	12.7%	5.8%
Unprocessed Goods	**4.3%**	3.8%	2.2%	50.2%	57.3%	19.0%
- Ex Food & Energy	**-1.3%**	8.9%	4.5%	59.0%	48.1%	25.2%
Services	**0.7%**	1.3%	0.4%	10.1%	8.2%	3.7%

Source: Bureau of Labor Statistics