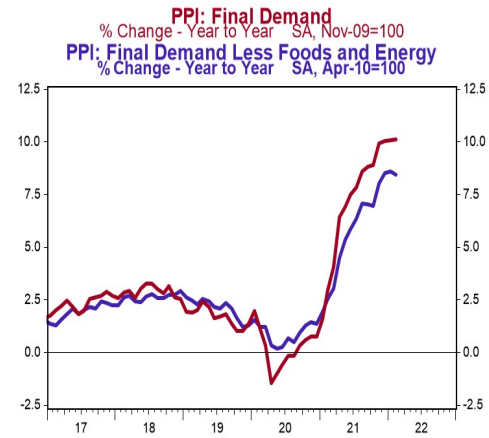


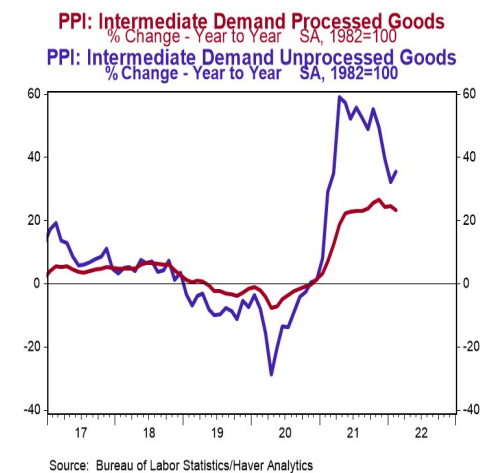
February PPI

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- The Producer Price Index (PPI) rose 0.8% in February, coming in below the consensus expected +0.9%. Producer prices are up 10.0% versus a year ago.
- Energy prices rose 8.2% in February, while food prices increased 1.9%. Producer prices excluding food and energy rose 0.2% in February and are up 8.4% in the past year.
- In the past year, prices for goods are up 14.4%, while prices for services have risen 7.8%. Private capital equipment prices increased 0.6% in February and are up 11.3% in the past year.
- Prices for intermediate processed goods rose 1.6% in February and are up 23.3% versus a year ago. Prices for intermediate unprocessed goods rose 14.6% in February and are up 35.1% versus a year ago.



Implications: Producer prices continued to surge in February, rising 0.8% on the back of higher energy costs. And given month-to-date activity here in March, producer prices look very likely to move sharply higher again as the impact of the Russia/Ukraine conflict hits the data. Today’s report on producer prices comes as the Federal Reserve meets to discuss starting the much-needed process of raising interest rates, and if anything, the data should heighten their urgency to take on inflation. The risk today is not that the Fed acts too aggressively in response to rising prices, but rather that they move too slowly and are forced to become significantly more aggressive as they find themselves even further behind the curve. The vast majority of our current inflationary environment is not due to Russia (remember, we had multi-decade high inflation before the conflict even started), it is not due to greedy companies, and it is not due to supply chain issues. Those factors contribute to inflation at the margin, but the key driver is (and has been) the massive 40%+ increase in the M2 money supply in response to COVID. Looking at the details of the February report, goods prices led the overall index higher, rising 2.4% for the month, as energy prices – most notably gasoline (+14.8%) and home heating (+14.4%) – surged. Food prices rose 1.9% on the month, led by higher costs for dairy and grains more than offsetting declining prices for vegetables and beef. Strip out the volatile food and energy categories, and “core” producer prices rose a more modest 0.2% in February. But don’t let the February number fool you, core prices are up 8.4% in the past year. Prices for services were unchanged in February, as rising costs for transportation and warehousing were offset by declining margins at wholesalers and retailers. It simply doesn’t matter how you cut it or which inflation gauge you prefer, they all show inflation running well above the Fed’s target, and have the central bank on its back foot trying to combat the results of excessively loose monetary policy. The U.S. economy should continue to grow in 2022 as businesses reopen, the labor market heals, and healthy consumer and business balance sheets promote further capacity to spend. It is now on Fed policymakers to step up to the plate. Will they have the fortitude to do what needs to be done in the year ahead? Time will tell. In manufacturing news this morning, the Empire State Index, a measure of New York factory sentiment, fell to -11.8 in March from 3.1 in February. Sentiment regarding geopolitical events certainly looks to have taken a toll on businesses in the region but we expect this to be temporary, with a rebound in activity over the months ahead.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Feb-22	Jan-22	Dec-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	0.8%	1.2%	0.4%	10.1%	9.4%	10.0%
Goods	2.4%	1.5%	-0.1%	16.1%	15.3%	14.4%
- Ex Food & Energy	0.7%	0.7%	0.4%	7.7%	8.1%	9.6%
Services	0.0%	1.0%	0.7%	6.9%	6.1%	7.8%
Private Capital Equipment	0.6%	2.0%	0.7%	14.2%	12.9%	11.3%
Intermediate Demand						
Processed Goods	1.6%	2.0%	0.0%	15.5%	18.8%	23.3%
- Ex Food & Energy	0.1%	1.4%	0.7%	8.8%	12.8%	24.0%
Unprocessed Goods	14.6%	0.1%	-4.9%	41.4%	47.6%	35.1%
- Ex Food & Energy	1.4%	-0.3%	-1.8%	-3.0%	-1.6%	15.5%
Services	0.0%	0.7%	0.6%	5.3%	4.9%	7.4%

Source: Bureau of Labor Statistics