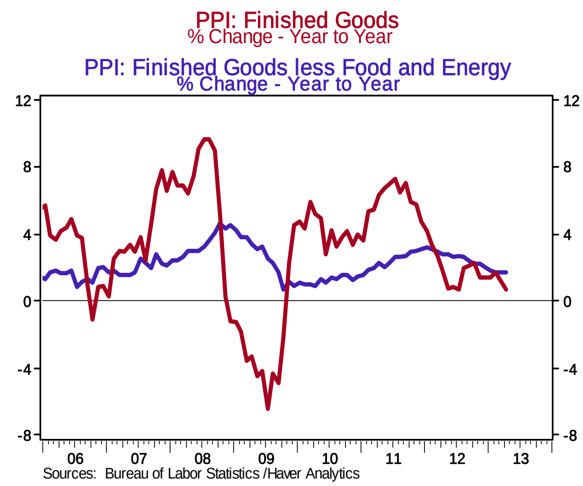
First Trust DATAWATCH

May 15, 2013 • 630.517.7756 • www.ftportfolios.com

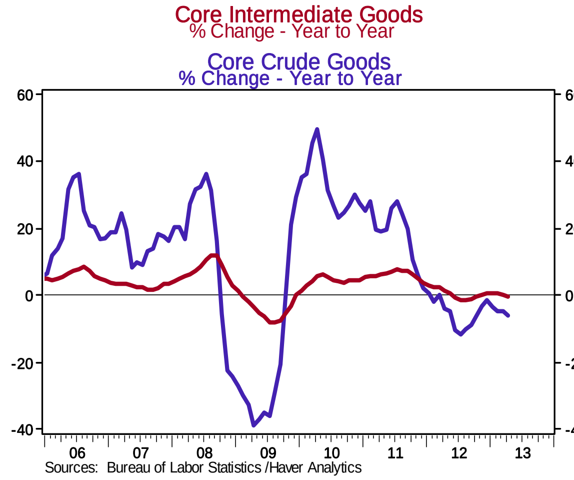
April PPI

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

- The Producer Price Index (PPI) fell 0.7% in April, slightly below the consensus expected -0.6%. Producer prices are up 0.6% versus a year ago.
- The decline in the overall PPI was due to energy, which fell 2.5%, and food prices which were down 0.8%. The "core" PPI, which excludes food and energy, was up 0.1%.
- Consumer goods prices were down 1.0% in April, while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 0.5% while capital equipment prices are up 0.9%.
- Core intermediate goods prices were down 0.2% in April and are down the same versus a year ago. Core crude prices fell 2.8% in April, and are down 5.9% versus a year ago.



Sources: Bureau of Labor Statistics /Haver Analytics



Sources: Bureau of Labor Statistics /Haver Analytics

Implications: Given the loose stance of monetary policy, higher inflation is eventually coming, but it sure isn't here yet. Wholesale prices dropped in April by the most in three years reinforcing the signal from yesterday's report on prices for imports and exports. The main culprit behind the wholesale price drop was energy which declined 2.5% after falling 3.4% in March, helping to push overall producer prices down 0.7% in April. Energy prices are now down 13.3% at an annualized rate over the past six months. "Core" prices though, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.1% in April and are up 1.7% versus a year ago. Some analysts may suggest that with the overall PPI only up 0.6% from last year that the Federal Reserve has room for its latest round of bond buying. We think this is a mistake, and it seems like some more members of the FOMC are starting to think the same thing. Core inflation is likely to continue growing and, despite projections of bumper US crop yields, food inflation should continue moving upward given recent improvement in emerging economies. Monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding even more excess reserves to the banking system is not going to boost economic growth. Yesterday's inflation report showed import prices declined 0.5% in April and are down 2.6% from a year ago. Most of the decline is due to oil; excluding petroleum, import prices were down 0.1% in April and are down 0.3% in the past year. Export prices fell 0.7% in April and are down 0.9% in the past year. Farm exports were down 0.5% in April and are down 1.5% versus a year ago.

Producer Price Index *All Data Seasonally Adjusted*	Apr-13	Mar-13	Feb-13	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Finished Goods	**-0.7%**	-0.6%	0.7%	-2.2%	-2.0%	0.6%
Ex Food and Energy	**0.1%**	0.2%	0.2%	1.7%	1.8%	1.7%
Food	**-0.8%**	0.8%	-0.5%	-2.3%	1.0%	2.3%
Energy	**-2.5%**	-3.4%	3.0%	-11.6%	-13.3%	-3.3%
Consumer Goods	**-1.0%**	-0.8%	0.9%	-3.4%	-3.1%	0.5%
Capital Equipment	**0.1%**	0.1%	0.1%	1.2%	1.0%	0.9%
Intermediate Goods	**-0.6%**	-0.9%	1.3%	-1.2%	-2.2%	-0.9%
Ex Food & Energy	**-0.2%**	0.2%	0.7%	2.7%	2.4%	-0.2%
Energy	**-2.1%**	-4.7%	3.6%	-13.0%	-14.1%	-4.7%
Crude Goods	**-0.4%**	-2.5%	-0.3%	-12.4%	-1.5%	3.4%
Ex Food & Energy	**-2.8%**	0.9%	-1.7%	-13.3%	-1.6%	-5.9%
Energy	**3.7%**	-8.5%	2.2%	-11.6%	3.1%	7.6%

Source: Bureau of Labor Statistics