Data Watch

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JANUARY PPI

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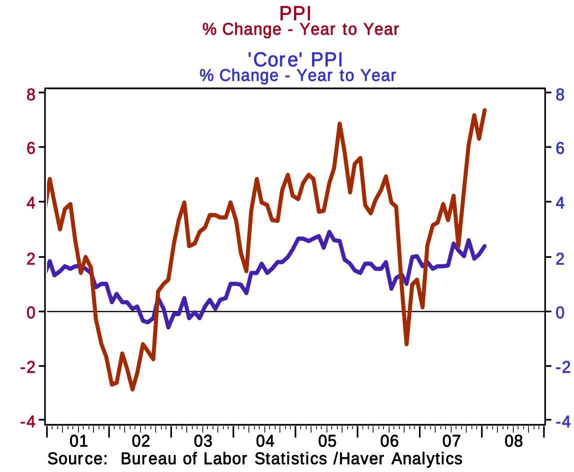
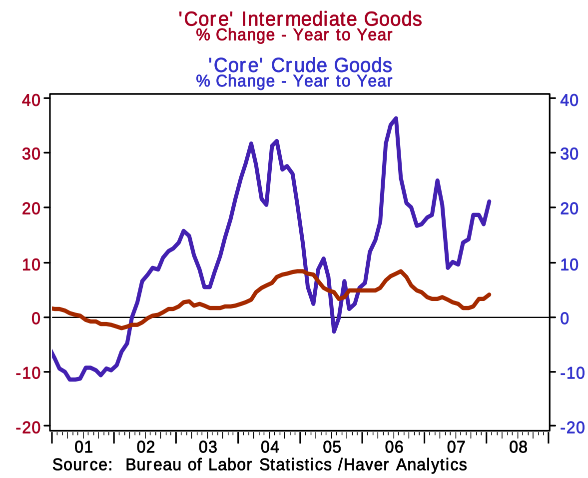
- The Producer Price Index (PPI) increased 1.0% in January versus a consensus expected rise of 0.4%. The PPI is up 7.7% in the past twelve months (seasonally adjusted), the largest increase since 1981.
- The increase in the PPI was not concentrated in any one sector. Food prices increased 1.7% and energy prices increased 1.5%. But the "core" PPI, which excludes food and energy prices, was up 0.4%, versus a consensus expected 0.2%. The core PPI is up 2.4% in the past year (seasonally adjusted).
- Consumer goods prices increased 1.1% in January and are up 9.2% versus a year ago, the largest increase since 1981. This is not all food-related: consumer food prices are up 8.3% versus a year ago, while non-food consumer goods are up 9.5%. Capital equipment prices increased 0.4% in January and are up 1.6% in the past year.
- Intermediate goods prices rose 1.4% in January and are up 9.1% versus last year. Crude prices increased 2.5% and are up 31.0% versus a year ago.





Implications: The US has an inflation problem and it's getting worse, not better. The producer price index is up 7.7% versus last year, the largest 12-month increase since 1981. Even "core" producer prices show a rising inflation trend if we take a long-term view: core prices are up at a 1.8% rate in the past five years, a larger increase for any five-year period since 1990-95. Some analysts say not to worry about inflation because it's a lagging indicator and a slowing economy will eventually reduce inflation. They are missing a key point: inflation is a monetary phenomenon and money affects real GDP with a lag of roughly six to nine months, but inflation with a lag of about two years. This causes many to believe that it is the slowdown in the economy that results in the drop in inflation when it is really the tight money. Unfortunately for those hoping that inflation falls in the months ahead, the drop in housing and the weaker economic data of recent months has *not* been due to tight money. As a result, any hope that slower growth will lead to lower inflation will be unfulfilled.

Producer Price Index *All Data Seasonally Adjusted*	Jan-08	Dec-07	Nov-07	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	**1.0%**	-0.3%	2.6%	13.5%	7.0%	7.7%
Ex Food and Energy	**0.4%**	0.2%	0.3%	3.7%	2.4%	2.4%
Food	**1.7%**	1.4%	-0.2%	12.0%	10.9%	8.2%
Energy	**1.5%**	-3.0%	11.4%	44.7%	16.4%	23.7%
Consumer Goods	**1.1%**	-0.4%	3.1%	16.2%	8.7%	9.2%
Capital Equipment	**0.4%**	0.1%	0.4%	3.5%	1.6%	1.6%
Intermediate Goods	**1.4%**	-0.2%	3.1%	18.4%	7.9%	9.1%
Ex Food & Energy	**0.8%**	0.0%	1.0%	7.5%	3.2%	4.1%
Energy	**2.8%**	-1.6%	10.7%	57.2%	21.1%	26.3%
Crude Goods	**2.5%**	1.1%	9.2%	63.9%	28.9%	31.0%
Ex Food & Energy	**4.0%**	0.2%	0.2%	19.2%	20.0%	21.0%
Energy	**1.8%**	-0.7%	17.0%	96.0%	35.5%	40.8%

Source: Bureau of Labor Statistics