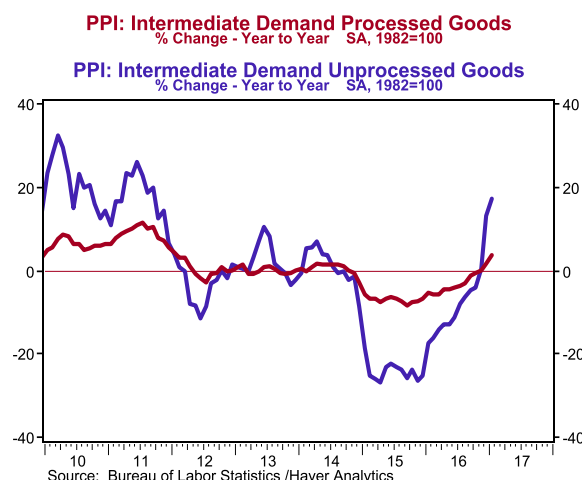
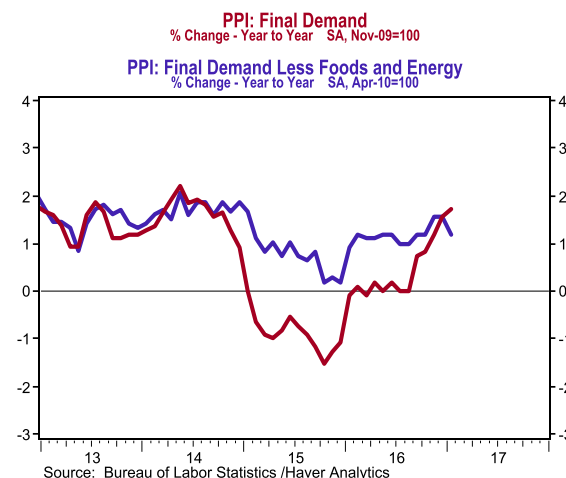


# January PPI

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

- The Producer Price Index (PPI) rose 0.6% in January, coming in well above the consensus expected increase of 0.3%. Producer prices are up 1.7% versus a year ago.
- Energy prices increased 4.7% in January, while food prices were unchanged. Producer prices excluding food and energy rose 0.4%.
- In the past year, prices for goods are up 3.2%, while prices for services are up 0.9%. Private capital equipment prices declined 0.1% in January but are up 0.8% in the past year.
- Prices for intermediate processed goods rose 1.1% in January and are up 3.9% versus a year ago. Prices for intermediate unprocessed goods increased 3.8% in January and are up 17.4% versus a year ago.

**Implications:** Producer prices rose at the fastest monthly pace in more than four years to start 2017. And this comes after healthy increases in November and December as well. Some will point out that energy prices, which rose 4.7% in January and are up 14.0% in the past year, have been a key contributor to the rise in consumer prices in recent months. But even stripping out the volatile food and energy components shows “core” prices accelerating from a 1.2% increase in the past year to a 3.7% annual rate in the past three months. Goods prices once again led the index higher in January, rising 1.0% on the back of energy prices. Meanwhile, service prices have shown consistent, if moderate, inflation, rising 0.3% in January. We expect this trend to continue in the coming months, which will push overall inflation toward, and eventually above, the Fed’s 2% inflation target. The Fed, to no surprise, held off on action at their meeting earlier this month. However, if data continue on the track of today’s inflation reading and the consensus-beating January jobs report, the Fed could be pushed to move before the market projected June meeting. Expect three, if not four, rate hikes in 2017. In other recent inflation news, import prices rose 0.4% in January and are up 3.7% from a year ago. Petroleum import prices jumped 5.2% in January following December’s 6.8% rise. While the long decline in energy prices that began in mid-2014 appears to be over, don’t be surprised if we see fits and starts on the road higher. Export prices also rose in January, up 0.1%, and have increased 2.3% in the past year. The Fed has plenty to watch before they meet again in March, and all eyes will be on the wording of that statement to see if the Fed will risk falling behind the curve.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Jan-17</b>	<b>Dec-16</b>	<b>Nov-16</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Final Demand</b>	<b>0.6%</b>	0.2%	0.5%	5.2%	2.5%	1.7%
<b>Goods</b>	<b>1.0%</b>	0.6%	0.2%	7.2%	4.5%	3.2%
- Ex Food & Energy	<b>0.4%</b>	0.3%	0.2%	3.3%	2.4%	2.0%
<b>Services</b>	<b>0.3%</b>	0.1%	0.5%	3.6%	1.3%	0.9%
<b>Private Capital Equipment</b>	<b>-0.1%</b>	0.4%	0.4%	2.6%	1.8%	0.8%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>1.1%</b>	0.4%	0.3%	7.8%	5.2%	3.9%
- Ex Food & Energy	<b>0.3%</b>	0.2%	0.4%	3.4%	3.2%	2.2%
<b>Unprocessed Goods</b>	<b>3.8%</b>	8.4%	-0.4%	57.8%	17.8%	17.4%
- Ex Food & Energy	<b>3.2%</b>	3.5%	2.2%	42.3%	12.4%	17.8%
<b>Services</b>	<b>0.3%</b>	0.4%	0.1%	3.2%	1.2%	1.5%

Source: Bureau of Labor Statistics