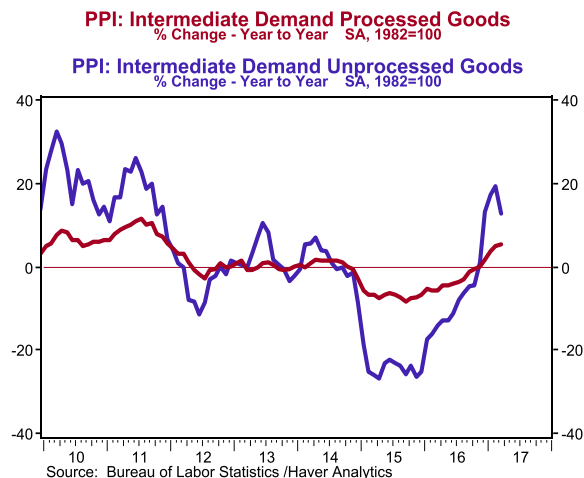
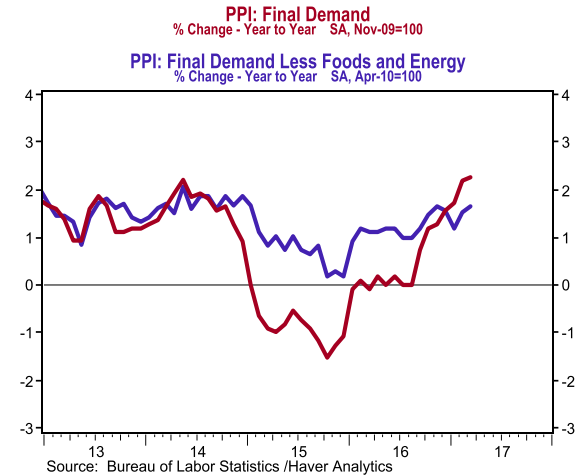


March PPI

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- The Producer Price Index (PPI) declined 0.1% in March, versus the consensus expected no change. Producer prices are up 2.3% versus a year ago.
- Energy prices fell 2.9% in March, while food prices rose 0.9%. Producer prices excluding food and energy were unchanged.
- In the past year, prices for goods are up 4.0%, while prices for services are up 1.5%. Private capital equipment prices were unchanged in March but are up 0.8% in the past year.
- Prices for intermediate processed goods rose 0.1% in March and are up 5.3% versus a year ago. Prices for intermediate unprocessed goods declined 4.2% in March but are up 12.8% versus a year ago.

Implications: Producer prices took a breather in March after six consecutive months of gains. But despite the 0.1% decline in March, producer prices are up 2.3% in the past year, the largest twelve-month rise since March 2012. Prices for both goods and services fell 0.1% in March, led by energy and prices for services outside the trade, transportation, and warehousing sectors. There is no reason for concern that inflation has peaked, though. Like the headline index, prices for both goods and services have been accelerating since mid-2016 and, despite some monthly volatility, we expect to see inflation continue and probably accelerate in the months ahead. Stripping out the volatile food and energy components shows “core” prices were unchanged in March, but up 1.6% in the past year, and have risen at a 2.6% annual rate in the past three months. While the primary focus is usually on final demand prices, costs earlier in the production process are rising as well, with both processed and unprocessed goods showing 12-month price increases near five-year highs. These input costs will continue to put pressure on final demand prices in the months ahead. Expect the trend of rising costs in both the goods and service sectors to hold overall inflation at or above the Fed’s 2% inflation target and keeping the Fed on track for at least two more rate hikes in 2017 before it starts the process of reducing the size of the Fed’s bloated balance sheet late in the year. In other recent news on inflation, import prices fell 0.2% in March but are up 4.2% from a year ago. Export prices rose 0.2% in March, and have increased 3.6% in the past year. In employment news this morning, new claims for unemployment insurance declined 1,000 last week to 234,000. Continuing claims fell 7,000 to 2.03 million. It’s very early, but these figures are consistent with a return to payroll growth of around 200,000 in April.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Mar-17	Feb-17	Jan-17	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.1%	0.3%	0.6%	3.3%	2.7%	2.3%
Goods	-0.1%	0.3%	1.0%	4.8%	4.5%	4.0%
- Ex Food & Energy	0.4%	0.1%	0.4%	3.3%	2.7%	2.3%
Services	-0.1%	0.4%	0.3%	2.5%	1.8%	1.5%
Private Capital Equipment	0.0%	0.2%	-0.1%	0.4%	1.8%	0.8%
Intermediate Demand						
Processed Goods	0.1%	0.4%	1.1%	6.9%	5.7%	5.3%
- Ex Food & Energy	0.7%	0.5%	0.3%	5.8%	4.7%	3.6%
Unprocessed Goods	-4.2%	-0.2%	3.8%	-2.7%	13.7%	12.8%
- Ex Food & Energy	2.0%	1.4%	3.2%	30.1%	24.4%	17.9%
Services	-0.2%	0.5%	0.3%	2.5%	2.5%	1.7%

Source: Bureau of Labor Statistics