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February PPI

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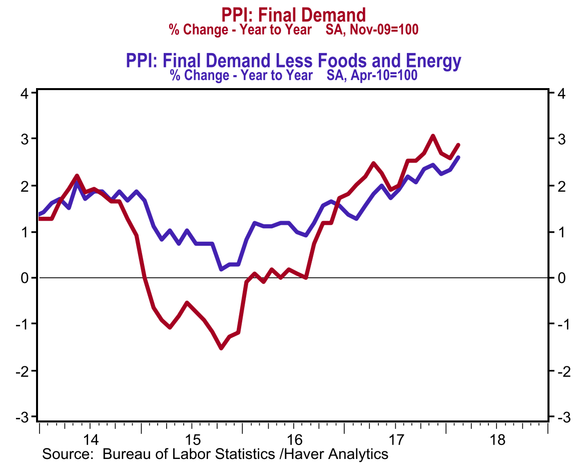
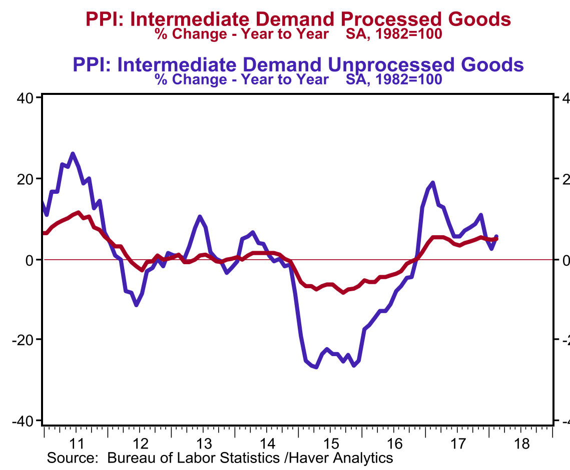
- The Producer Price Index (PPI) increased 0.2% in February, coming in above the consensus expected rise of 0.1%. Producer prices are up 2.8% versus a year ago.
- Energy prices declined 0.5% in February, while food prices declined 0.4%. Producer prices excluding food and energy increased 0.2%.
- In the past year, prices for goods are up 3.0%, while prices for services are up 2.8%. Private capital equipment prices declined 0.3% in February but are up 2.6% in the past year.
- Prices for intermediate processed goods rose 0.7% in February and are up 4.8% versus a year ago. Prices for intermediate unprocessed goods increased 2.8% in February and are up 5.6% versus a year ago.





Implications: Producer prices moved higher in February, rising 0.2% in the final key inflation reading before next week's Fed meetings. And, with producer prices up 2.8% in the past year, there is little question the Fed has the green light to raise rates while also signaling intentions for four rate hikes in 2018. The pouting pundits of pessimism may cry fears of rising rates slowing economic activity, but the Federal Reserve is still running a loose monetary policy. Yes, the federal funds rate is slowly and steadily on the rise, but there are still more than two trillion dollars of excess reserves in the banking system, and monetary policy won't be tight until that excess slack is removed. This is especially true because anti-bank attitudes and regulation have been reversed, which reduces the headwinds to monetary growth. Taking a look at the details of today's PPI report shows rising costs for services less trade, transportation, and warehousing (think areas like health care, lodging, and banking) led the way in February. Energy prices fell 0.5% in February as fuel prices declined for the month, but remain up 9.1% in the past year. Meanwhile food prices declined 0.4%, led by a sharp drop in costs for vegetables. Strip out these typically volatile food and energy groupings, and "core" producer prices rose 0.2% in February and are up 2.5% in the past year (the largest twelve-month increase going back to early 2012). For comparison, "core" prices rose 1.3% in the twelve months ending both February 2017, and February 2016. And a look further down the pipeline shows the trend higher should continue in the year to come. Intermediate processed goods rose 0.7% in February and are up 4.8% from a year ago, while unprocessed goods increased 2.8% in February and are up 5.6% in the past year. Both categories have seen a pickup in the pace of price increases over recent months. Given these figures, and with employment growth remaining strong, the greater risk now is that the Fed flinches and falls behind the curve.

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Feb-18	Jan-18	Dec-17	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**0.2%**	0.4%	0.0%	2.5%	3.6%	2.8%
Goods	**-0.1%**	0.7%	0.1%	2.9%	4.9%	3.0%
- Ex Food & Energy	**0.2%**	0.2%	0.2%	2.1%	2.5%	2.1%
Services	**0.3%**	0.3%	-0.1%	2.1%	2.8%	2.8%
Private Capital Equipment	**-0.3%**	0.5%	0.1%	1.4%	1.3%	2.6%
Intermediate Demand						
Processed Goods	**0.7%**	0.7%	0.5%	7.6%	7.7%	4.8%
- Ex Food & Energy	**0.7%**	0.3%	0.4%	5.6%	5.0%	3.7%
Unprocessed Goods	**2.8%**	0.9%	1.9%	24.7%	19.1%	5.6%
- Ex Food & Energy	**-0.3%**	3.8%	1.4%	21.8%	7.4%	7.4%
Services	**0.5%**	0.1%	0.0%	2.4%	3.3%	2.9%

Source: Bureau of Labor Statistics