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January PPI

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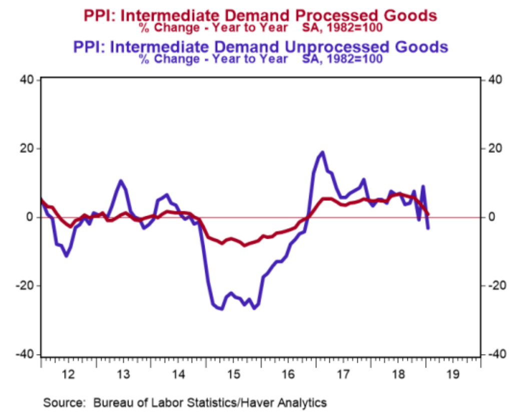
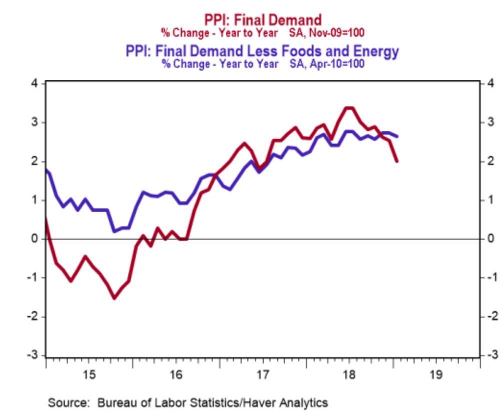
- The Producer Price Index (PPI) declined 0.1% in January, coming in below the consensus expected rise of 0.1%. Producer prices are up 2.0% versus a year ago.
- Energy prices fell 3.8% in January, while food prices declined 1.7%. Producer prices excluding food and energy rose 0.3% in January and are up 2.6% in the past year.
- In the past year, prices for goods are up 0.5%, while prices for services are up 2.8%. Private capital equipment prices rose 0.6% in January, and are up 3.7% in the past year.
- Prices for intermediate processed goods fell 1.4% in January but are up 0.9% versus a year ago. Prices for intermediate unprocessed goods declined 9.3% in January and are down 3.1% versus a year ago.



Implications: With two consecutive months of declines for the producer price index – and prices down at a 0.3% annual rate in the past three months - are we seeing a softening in inflation that justifies the bears' calls for a prolonged Fed pause? Not even close. Strip out the ever-volatile food and energy categories - which fell 1.7% and 3.8%, respectively, in January – and producer prices rose 0.3%. And the pace of "core" inflation stands comfortably above the Fed's inflation target, up 2.6% in the past year (if you are feeling a bit of deja vu, yesterday's report on consumer prices showed a similar pattern). In fact, outside of food and energy, not a single other major category of final demand prices fell in January. Within core PPI, prices for trade services (think wholesaler margins) rose 0.8%, and transportation & warehousing services increased 0.5%. Notably, private capital equipment prices rose 0.6% in January, and are up 3.7% in the past year, possibly signaling rising business investment which will provide a boost to economic activity in the year ahead. In other words, policymakers in Washington, DC – both Republicans and Democrats – need to stop wasting time trying to manipulate how companies use their resources. Looking further down the price pipeline suggests we will continue to see some volatility in the month-to-month readings for the producer price index. But with both the ISM Manufacturing and Non-Manufacturing indices comfortably in expansion territory, and an increasingly-tight labor market for qualified labor to both produce and transport goods, we expect wages - and general prices – will push higher at a faster pace in the year ahead. At the end of the day, the trend in core prices – where the Fed will focus their attention – suggests inflation of around 2.5% in 2019.



Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Jan-19	Dec-18	Nov-18	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**-0.1%**	-0.1%	0.1%	-0.3%	1.0%	2.0%
Goods	**-0.8%**	-0.3%	-0.5%	-6.1%	-2.1%	0.5%
- Ex Food & Energy	**0.3%**	0.1%	0.3%	2.8%	1.7%	2.4%
Services	**0.3%**	0.0%	0.3%	2.1%	2.6%	2.8%
Private Capital Equipment	**0.6%**	0.2%	0.1%	3.5%	2.6%	3.7%
Intermediate Demand						
Processed Goods	**-1.4%**	-0.9%	-0.6%	-11.1%	-3.8%	0.9%
- Ex Food & Energy	**-0.3%**	-0.6%	-0.2%	-4.6%	-0.7%	2.6%
Unprocessed Goods	**-9.3%**	11.1%	-5.3%	-17.2%	-8.0%	-3.1%
- Ex Food & Energy	**-1.9%**	1.5%	2.3%	7.6%	-4.4%	-2.4%
Services	**0.2%**	0.1%	0.2%	2.0%	2.5%	2.9%

Source: Bureau of Labor Statistics