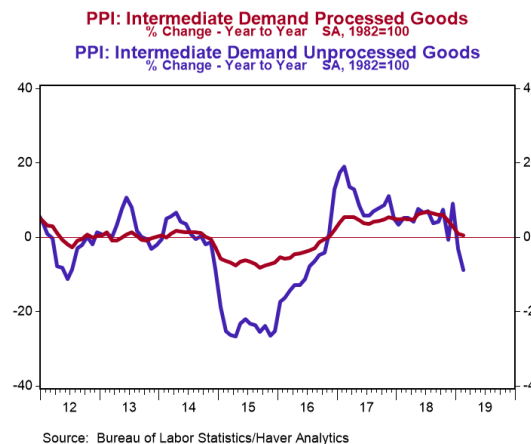
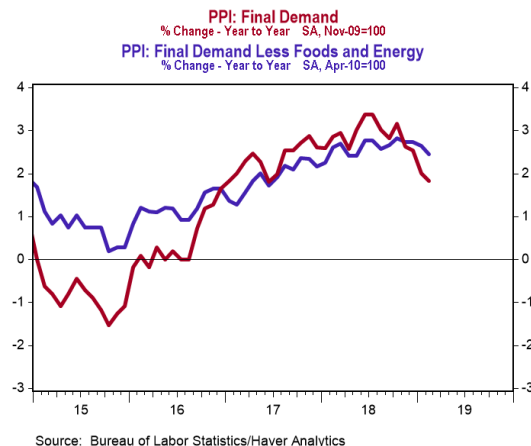


## February PPI

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- The Producer Price Index (PPI) increased 0.1% in February, coming in below the consensus expected rise of 0.2%. Producer prices are up 1.9% versus a year ago.
- Energy prices rose 1.8% in February, while food prices declined 0.3%. Producer prices excluding food and energy rose 0.1% in February and are up 2.5% in the past year.
- In the past year, prices for goods are up 0.6%, while prices for services are up 2.5%. Private capital equipment prices were unchanged in February, but are up 3.5% in the past year.
- Prices for intermediate processed goods rose 0.4% in February and are up 0.6% versus a year ago. Prices for intermediate unprocessed goods declined 4.6% in February and are down 8.8% versus a year ago.

**Implications:** Following three consecutive months of declines, the producer price index ticked back into positive territory in February. The rebound in February can be traced to goods, which rose 0.4% after also falling three months in a row. About 80% of the gain in goods prices came solely from rising energy prices, which were up 1.8% in February. The recent weakness in the headline numbers have primarily been about falling oil prices, but now with crude rebounding it's not surprising to see a return to price growth. The Federal Reserve is well aware of the short-term price volatility from the energy sector, which is why we think talk of "muted" headline inflation won't be enough to dissuade them from further rate hikes later in 2019 as long as the yield on the 10-year Treasury Note rises, as well. Stripping out the volatile food and energy categories shows "core" inflation stands comfortably above the Fed's inflation target, up 2.5% in the past year (if you are feeling a bit of déjà vu, [yesterday's report on consumer prices](#) showed a similar pattern). That said, price pressures in the service sector, which represents about two-thirds of the overall index, may be abating, rising at only a 1.0% annual rate over the past three months versus 2.5% over the past year. This slowdown was the result of February service sector prices remaining unchanged, as unexpected declines in prices for trade, transportation & warehousing services (think wholesaler margins) were offset elsewhere. Notably, private capital equipment prices are up 3.5% in the past year, the fastest year-over-year growth of any major category, possibly signaling rising demand for business investment which will provide a boost to economic activity in the year ahead. 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	Feb-19	Jan-19	Dec-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Final Demand</b>	<b>0.1%</b>	-0.1%	-0.1%	-0.3%	1.2%	1.9%
<b>Goods</b>	<b>0.4%</b>	-0.8%	-0.3%	-2.7%	-1.6%	0.6%
- Ex Food & Energy	<b>0.1%</b>	0.3%	0.1%	1.7%	1.6%	2.3%
<b>Services</b>	<b>0.0%</b>	0.3%	0.0%	1.0%	2.6%	2.5%
<b>Private Capital Equipment</b>	<b>0.0%</b>	0.6%	0.2%	3.2%	3.0%	3.5%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.4%</b>	-1.4%	-0.9%	-7.5%	-3.5%	0.6%
- Ex Food & Energy	<b>0.1%</b>	-0.3%	-0.6%	-3.3%	-1.2%	2.1%
<b>Unprocessed Goods</b>	<b>-4.6%</b>	-9.3%	11.1%	-14.7%	-9.7%	-8.8%
- Ex Food & Energy	<b>-0.7%</b>	-1.9%	1.5%	-4.3%	-0.7%	-2.9%
<b>Services</b>	<b>-0.1%</b>	0.2%	0.1%	1.0%	2.4%	2.6%

Source: Bureau of Labor Statistics