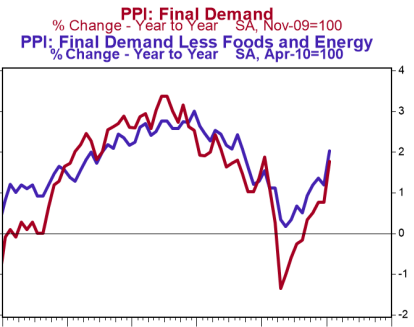


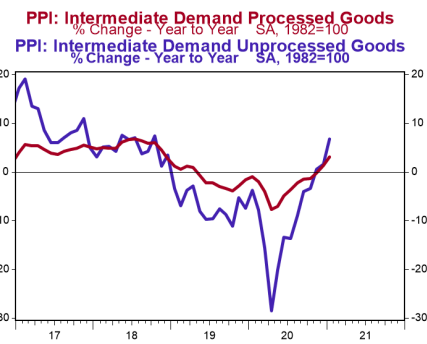
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# January PPI

- The Producer Price Index (PPI) rose 1.3% in January, well above the consensus expected +0.4%. Producer prices are up 1.7% versus a year ago.
- Energy prices rose 5.1% in January, while food prices increased 0.2%. Producer prices excluding food and energy rose 1.2% in January and are up 2.0% in the past year.
- In the past year, prices for goods are up 1.3%, while prices for services have risen 2.0%. Private capital equipment prices increased 0.8% in January and are up 0.8% in the past year.
- Prices for intermediate processed goods rose 1.7% in January and are up 3.1% versus a year ago. Prices for intermediate unprocessed goods increased 3.8% in January and are up 6.6% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



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**Implications:** Producer prices rose in January at the fastest rate since the current series began in 2009. In fact, the 1.3% increase in January marks the only time the index has ever recorded a single-month increase of 1.0% or more. Since bottoming in April, producer prices are up at a 5.3% annualized rate, matching the fastest annualized pace recorded for a nine-month period, and representing a sharp rebound from the 2.0% annualized decline for the nine months ending in April. Prices for both goods and services saw outsized increases in January. This is especially notable given that services, which represent more than twice the weighting of goods within the index, had moderating prices in the final months of 2020. Digging into the details shows that every major category within services moved higher. Wholesaler margins rose, costs for transportation and warehousing moved higher, and medical service prices increased. One of the few areas where prices declined was in food services, which continues to feel the impact of COVID restrictions. On the goods side, the typically volatile energy category jumped 5.1% in January, led by rising gasoline prices. Food prices also moved higher on increased costs for fruits and eggs. Strip out the food and energy categories, and “core” producer prices still rose 1.2% in January (the largest single-month increase on record for core prices was 0.6% prior to this month’s report). Core prices are now up 2.0% over the past twelve months, and trending higher, up at a 3.5% annualized rate since the turn last April. Over recent months, transportation and warehousing have driven the core PPI higher. While passenger transportation prices are down 21.7% in the past year, costs for transportation and warehousing of goods have moved in the opposite direction, up 3.2% since January 2020. Here too, prices are accelerating, up at a massive 16.3% annualized rate over the past three months. A continued shortage of delivery drivers has put upward price pressure on costs. And these pressures look set to remain over the coming months. Supply constraints, limitations on activity, and the general economic disruptions related to COVID-19 will continue to muddy the data, but what is clear is the massive increase in the M2 money supply, up 25% in the past year. Once the dust finally settles – and that process is clearly under way – we expect headline inflation will follow the trend in core prices to, and then above, 2% on a twelve-month basis. The Federal Reserve is loose and, as it has made abundantly clear, plans to stay that way for the foreseeable future. Meanwhile, businesses operating at limited capacity will remain a headwind for economic activity. The result will eventually be too much money chasing too few goods (and services), meaning higher – but not hyper – inflation. Further down the pipeline, prices for intermediate demand processed goods rose 1.7% in January, while intermediate demand unprocessed goods rose 3.8% (and are up an astonishing 56.4% at an annualized rate over the past six months). Intermediate unprocessed goods are up 6.6% from a year ago, and have shown significant movement since bottoming at a 28.6% twelve-month decline back in April. Expect inflation pressures to remain a topic of conversation throughout the year ahead.

<b>Producer Price Index</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Jan-21</b>	<b>Dec-20</b>	<b>Nov-20</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Final Demand</b>	<b>1.3%</b>	0.3%	0.1%	6.9%	5.3%	1.7%
<b>Goods</b>	<b>1.4%</b>	1.0%	0.3%	11.6%	8.5%	1.3%
- Ex Food & Energy	<b>0.8%</b>	0.5%	0.2%	5.8%	4.3%	2.3%
<b>Services</b>	<b>1.3%</b>	-0.1%	-0.2%	4.4%	3.9%	2.0%
<b>Private Capital Equipment</b>	<b>0.8%</b>	0.2%	-0.6%	1.4%	1.4%	0.8%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>1.7%</b>	1.4%	1.3%	18.9%	13.2%	3.1%
- Ex Food & Energy	<b>1.8%</b>	1.2%	0.1%	13.2%	10.3%	3.7%
<b>Unprocessed Goods</b>	<b>3.8%</b>	2.2%	7.4%	68.4%	56.4%	6.6%
- Ex Food & Energy	<b>8.9%</b>	4.5%	2.4%	84.4%	62.1%	24.9%
<b>Services</b>	<b>1.3%</b>	0.4%	-0.1%	6.6%	8.5%	2.8%

Source: Bureau of Labor Statistics