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March PPI

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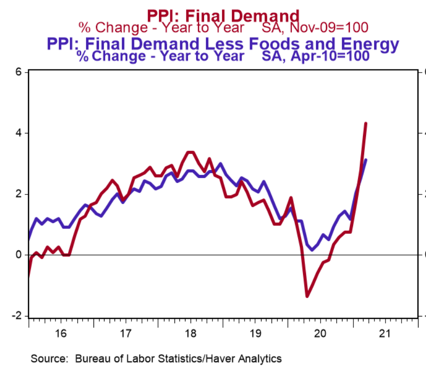
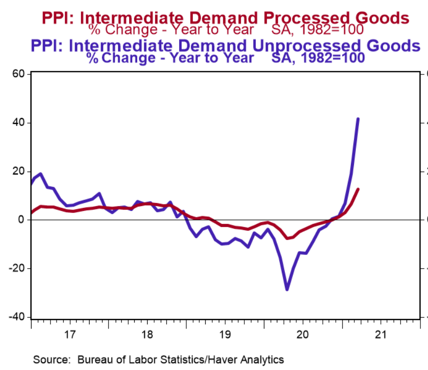
- The Producer Price Index (PPI) rose 1.0% in March, well above the consensus expected +0.5%. Producer prices are up 4.2% versus a year ago.
- Energy prices rose 5.9% in March, while food prices increased 0.5%. Producer prices excluding food and energy rose 0.7% in March and are up 3.1% in the past year.
- In the past year, prices for goods are up 7.0%, while prices for services have risen 3.0%. Private capital equipment prices increased 0.9% in March and are up 2.7% in the past year.
- Prices for intermediate processed goods rose 4.0% in March and are up 12.5% versus a year ago. Prices for intermediate unprocessed goods increased 9.3% in March and are up 41.6% versus a year ago.





Implications: The Federal Reserve wanted more inflation and now we have more inflation. For the second time in three months, producer prices jumped by a massive 1%+ on a month-to-month basis, pushing the headline reading to 4.2% year-to-year, the highest in nearly a decade. And prices are accelerating, up at a 7.6% annualized pace in the past six months. Three things are going on. First, a "base effect" is making year-to-year comparisons higher because producer prices fell steeply last March during the onset of COVID-19. Expect more of that in the near future as prices fell even faster in April 2020. Second, extensive "supply-chain" issues are affecting the economy and leading to higher prices. Think the shortage in semiconductors for cars and trucks as well as delays in meeting demand for household appliances. Third, the M2 measure of the money supply is up 27% versus a year ago. The first two factors, the base effect and supply-chain issues, are temporary; the third issue, the huge increase in the money supply, will affect inflation over the long term. The Fed seems to anticipate that after peaking later this year due to the base effect and supply-chain issues, inflation will subside later this year and into 2022. We think any waning in inflation later this year due to the first two factors will be temporary, as the increase in the money supply gains traction. In other words, the Fed thinks recent higher inflation is temporary, but we think any deceleration in inflation later this year is the temporary phenomenon. In terms of the details for March, prices for goods led the overall index higher, with the bulk of that coming from a 5.9% increase in energy costs (the index for gasoline alone increased 8.8%). The food index rose 0.5% in March as increased costs for poultry were partially offset by lower prices for beef and veal. Prices for services jumped 0.7% in March. Within services, final demand trade services (think margins received by wholesalers and retailers) were the key contributor to higher costs, consistent with supply-chain problems. Meanwhile, transportation and warehousing services had an outsized increase for the third consecutive month. Further down the pipeline, prices for intermediate demand processed goods rose 4.0% in March, while intermediate demand unprocessed goods rose 9.3% (and are up at an astonishing 70.1% annualized rate in the past six months). Intermediate unprocessed goods are up 41.6% from a year ago, and have shown significant movement since bottoming at a 28.6% twelve-month decline back in April 2020. However, don't expect the Fed to signal any change in the plan to keep short-term rates near zero for the foreseeable future. The Fed wants inflation to trend above the 2% target for a prolonged period, while the labor market – the other side of the Fed's dual mandate – also has to heal considerably further to get the Fed to seriously consider a move higher. Expect inflation pressures to remain a dominant topic of conversation throughout the year ahead. In recent news on the labor market, initial jobless claims rose 16,000 last week while continuing claims declined 16,000. As we saw with March's nonfarm payroll gain of 916,000, jobs growth is re-accelerating with the easing of restrictions across the country as vaccinations continue to rise. Expect significant job gains in the months ahead as we get back toward "normal."

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Mar-21	Feb-21	Jan-21	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**1.0%**	0.5%	1.3%	11.9%	7.6%	4.2%
Goods	**1.7%**	1.4%	1.4%	19.5%	13.8%	7.0%
- Ex Food & Energy	**0.9%**	0.3%	0.8%	8.3%	5.8%	3.6%
Services	**0.7%**	0.1%	1.3%	8.5%	4.7%	3.0%
Private Capital Equipment	**0.9%**	0.3%	0.8%	8.1%	4.5%	2.7%
Intermediate Demand						
Processed Goods	**4.0%**	2.7%	1.7%	39.0%	25.2%	12.5%
- Ex Food & Energy	**3.2%**	1.8%	1.8%	30.7%	18.0%	9.3%
Unprocessed Goods	**9.3%**	4.3%	3.8%	96.4%	70.1%	41.6%
- Ex Food & Energy	**3.2%**	-1.3%	8.9%	51.4%	44.8%	27.7%
Services	**0.4%**	0.7%	1.3%	10.0%	6.8%	4.0%

Source: Bureau of Labor Statistics