

U.S. Data Review

- Producer prices: a break in service prices; goods prices continue to climb

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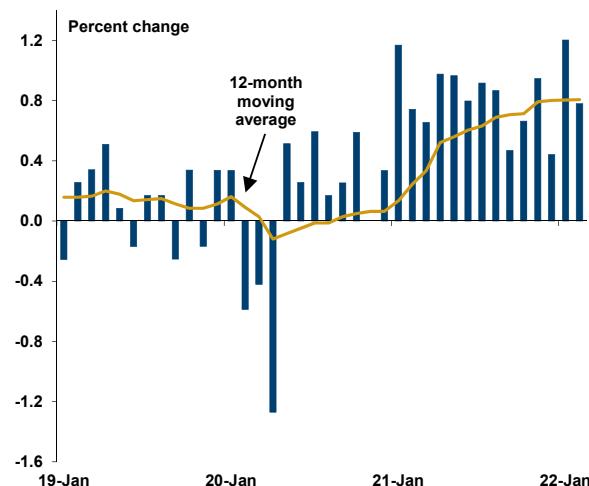
Producer Price Index

The PPI provided a surprise in February, as prices excluding food and energy rose only 0.2 percent, far below the expected increase of 0.6 percent. However, we would not get excited about the calm reading, as the PPI often moves erratically and can be out of step with other inflation measures. Much of the random movement in the index occurs in the service sector, and that was the case in February, as prices of services were unchanged. Prices of goods continued to increase at a rapid pace (2.4 percent).

Much of the pressure on goods prices occurred in the food and energy components, which rose 8.2 percent and 1.9 percent, respectively, reinforcing strong upward trends. In the past 12 months, energy prices at the producer level have increased 33.8 percent while food prices have climbed 13.7 percent. Goods prices excluding food and energy rose 0.7 percent in February. The increase was broadly based, as shown by a jump of 0.9 percent in consumer goods prices and 1.0 percent in capital goods prices. Goods purchased by governments rose 0.7 percent. Prices of goods for exports were a bit more subdued (0.4 percent), but this sector had been raging in prior months (up 12.9 percent in the past year). Prices in the construction sector rose 0.6 percent after a surge of 3.6 percent in January. Prices related to construction have jumped 16.6 percent in the past year.

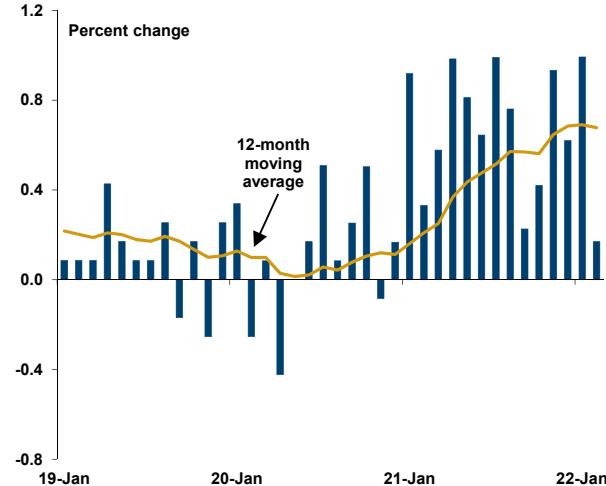
Given the pressure in the goods area, and given the high degree of random movement often seen in the service sector, we do not view the increase of 0.2 percent excluding food and energy as a sign of inflation relief.

Headline PPI



Source: Bureau of Labor Statistics via Haver Analytics

PPI Excluding Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics