

PRODUCER PRICE INFLATION HITS TWO- YEAR HIGH

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Producer prices climbed the most in two years, [according to government numbers](#).

Expectations were for things to have slowed significantly in April. That didn't happen:

- PPI final demand month-over-month: **0.6%** (0.2% expected; March: 0.5%)
- PPI ex-food and energy: **0.5%** (0.2% expected; March: 0.6%)
- PPI final demand year-over-year: **2.1%** (1.7% expected; March: 1.4%)
- PPI ex-food and energy year-over-year: **1.9%** (1.4% expected; March: 1.4%)

Capital Economics' Paul Dales says this could be the real thing: expansion.

...while March's rise was a rebound from the 0.3% m/m fall in February triggered by the bad weather, April's gain seems to be more genuine. Two-thirds of it was

due to an increase in the margins of wholesalers of machinery and equipment, which may be a result of a cyclical pick-up in demand for capital goods.

At face value, the increase in core total finished goods PPI inflation to 2.0%, from 1.6% in March, suggests that core CPI inflation will rise from 1.7% in March to around 2.0% within a matter of month. Although we don't expect this rise to happen so soon, we are expecting the stronger economic recovery and rising wage growth to push core CPI inflation above 2% next year.

Food prices surged the most since 2011, but Pantheon's Ian Shepherdson argues the jump in should be ignored, and we should instead be focusing on services profit margins:

One jump in the core PPI can be dismissed; two are interesting. The story here is all about the services sector, where prices rose 0.6%, after a 0.7% March gain. The damage is in the final demand trade services component, which is a measure of retail and wholesale profit margins. Both March and April saw hefty 1.4% increases, but the numbers are volatile - they fell by a total of 2.4% over the previous three months - so we can't yet say an upward trend is emerging. PPI margins are quite closely correlated with the NFIB selling price expectations index, which has risen sharply; we expected big PPI gains today on the back of the NFIB. Further sustained gains would spell trouble ahead. Core

goods prices, meanwhile, are no threat.

Full table:

Table A. Monthly and 12-month percent changes in selected final demand price indexes, seasonally adjusted

Month	Total final demand	Final demand goods				Final demand services				Change in final demand from 12 months ago (unadj.)
		Total	Foods	Energy	Less foods and energy	Total	Trade	Transportation and warehousing	Other	
2013										
Apr.....	0.0	-0.7	-1.3	-2.4	0.0	0.2	0.6	-0.7	0.3	0.9
May.....	-0.1	0.4	1.1	1.2	0.1	-0.4	-1.4	0.1	0.1	0.9
June.....	0.5	0.3	-0.3	1.5	0.1	0.6	1.0	0.8	0.3	1.7
July.....	0.3	0.1	0.3	-0.1	0.0	0.5	1.0	0.7	0.0	2.0
Aug.....	-0.1	0.0	-0.6	0.7	0.0	-0.1	-0.6	0.1	0.2	1.7
Sept.....	0.1	-0.1	-0.7	0.2	0.0	0.2	0.4	-0.1	0.1	1.1
Oct.....	0.3	0.1	0.3	0.0	0.0	0.3	0.2	0.3	0.3	1.3
Nov.....	0.0	-0.1	-0.2	-0.6	0.1	0.0	0.2	-0.5	0.1	1.1
Dec. ¹	0.0	0.4	-0.2	1.2	0.4	-0.2	-1.0	1.6	0.1	1.2
2014										
Jan. ¹	0.2	0.4	0.7	0.4	0.3	0.1	0.4	-1.4	0.0	1.2
Feb.....	-0.1	0.4	0.6	0.5	0.2	-0.3	-1.0	-0.2	0.1	0.9
Mar.....	0.5	0.0	1.1	-1.2	0.1	0.7	1.4	0.5	0.4	1.4
Apr.....	0.6	0.6	2.7	0.1	0.3	0.6	1.4	0.8	0.3	2.1

¹ Some of the figures shown above and elsewhere in this release may differ from those previously reported because data for December 2013 have been revised to reflect the availability of late reports and corrections by respondents.

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