

U.S. Data Review

- Producer prices: marked pressure

Michael Moran
Lawrence Werther

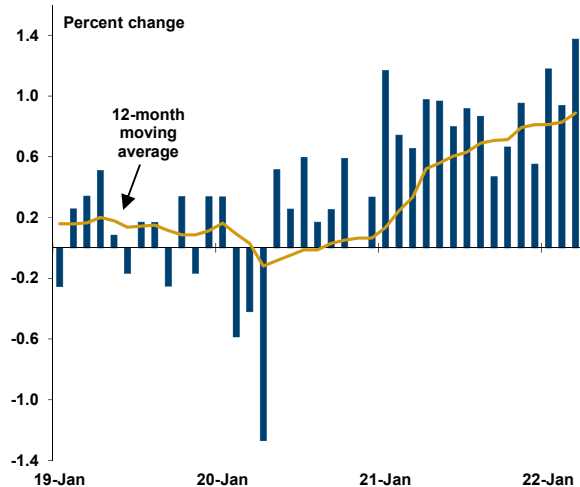
Daiwa Capital Markets America
 michael.moran@us.daiwacm.com
 lawrence.werther@us.daiwacm.com

PPI

We typically do not put much weight on the producer price index when assessing inflation because it often moves erratically, but with inflation now the leading economic issue, every data point should be scrutinized. The measure has shown a good bit of volatility in the past year, but the most notable element of recent reports has been the persistence of upward pressure on prices. The headline index has fluctuated in a range centered on 0.9 percent, while prices excluding food and energy have fluctuated in a range around 0.7 percent (charts).

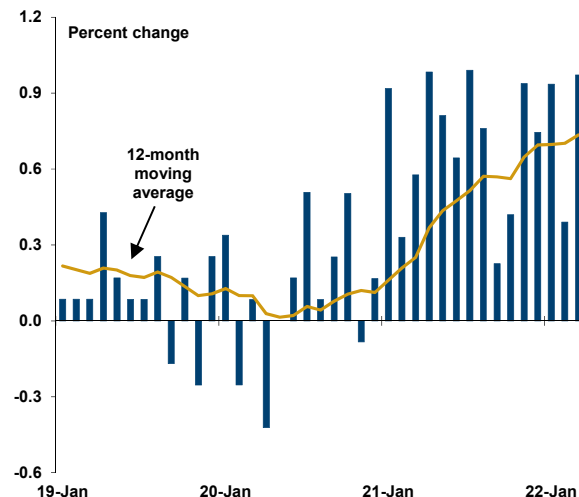
The increase in producer prices in March was larger than the recent norm, with the headline index jumping 1.4 percent, exceeding the expected increase of 1.1 percent. The index excluding food and energy rose 1.0 percent, double the expected increase of 0.5 percent. Both the food and energy components posted changes in the upper ends of their recent ranges (2.4 percent and 5.7 percent, respectively). The change in energy prices, while pronounced, was lighter than what we expected and far shy of the 11.0 percent increase in the CPI. Outside of food and energy, much of this pressure came in prices of goods destined for export and goods purchased by governments (1.7 percent and 1.3 percent, respectively). Prices of goods excluding food and energy paid by consumers rose 0.7 percent, in line with the average from the past year. Prices of services rose 0.9 percent, faster than the average of 0.7 percent in the prior 12 months.

Headline PPI



Source: Bureau of Labor Statistics via Haver Analytics

PPI Ex. Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.