

ANOTHER STRONGER INFLATION READING

FEBRUARY 2024 MARKET COMMENTARY



The US Bureau of Labor Statistics released its index of Producer Prices (PPI) this morning and it surprised to the upside. The PPI for final demand increased 0.3% (3.6% annualized) in January on a seasonally adjusted basis and December's reading was revised upward to a decline of 0.1% (up from an initial -0.2% reading). Economists had predicted a rise of only 0.1%.

Taking out more volatile Food and Energy data, (Core PPI), the index rose 0.6% in January after gaining 0.2% in December. ON an annualized basis Core PPI rose at a 2.6% annualize rate, the same level as December.

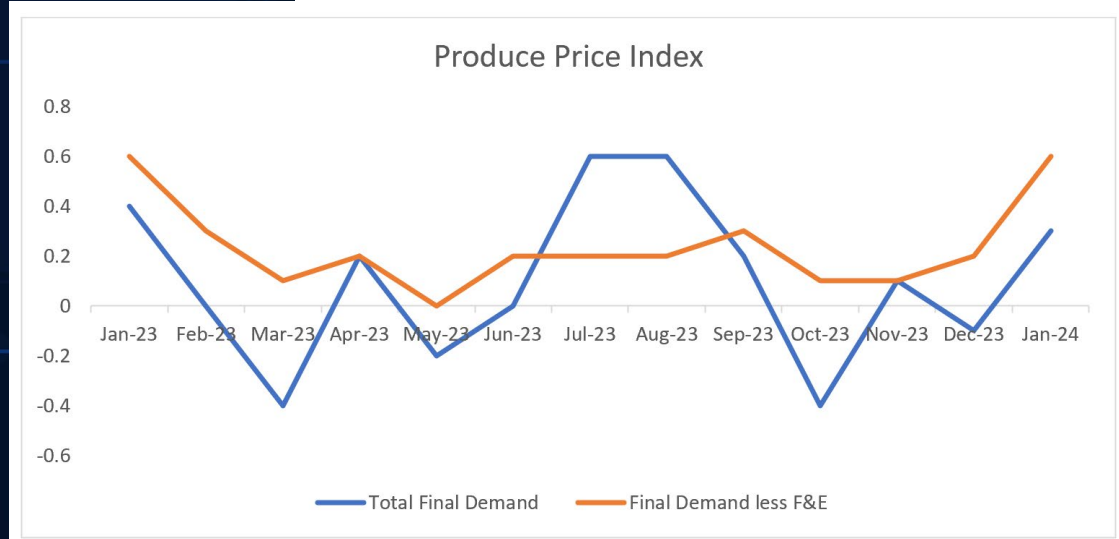


Figure 1- Source: U.S. Department of Labor Statistics

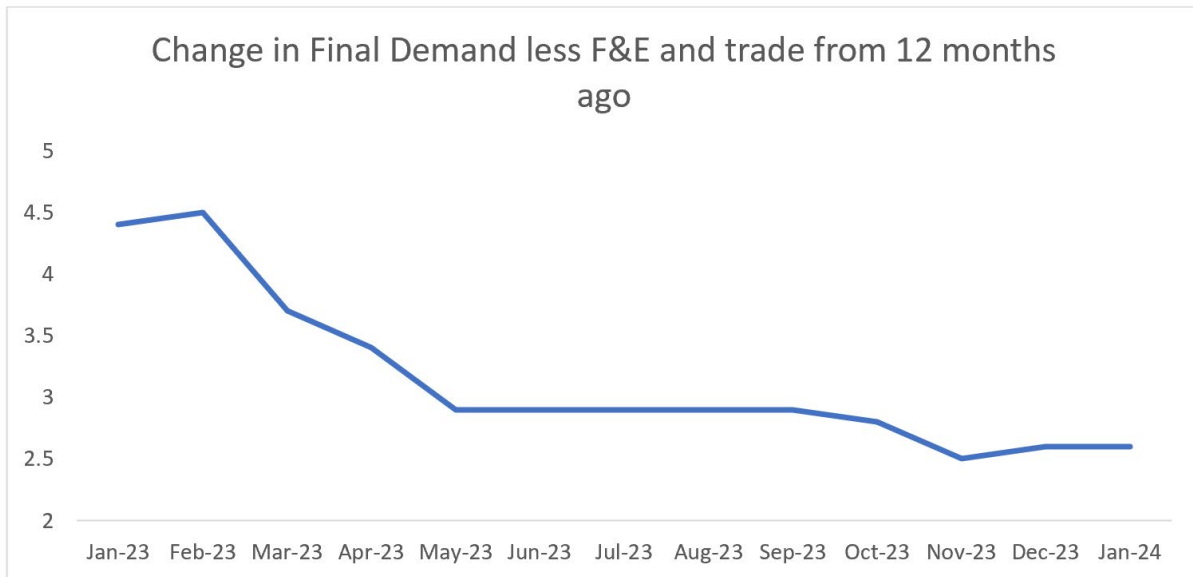


Figure 2 - Source: U.S. Bureau of Labor Statistics

The upward surprise looks to have come from the Services component of the PPI. This would seem to confirm the rise in the price component of the ISM – Services data release the week of February 5, 2024. Specifically, the rise in Services final demand was largely impacted by the “Other” component which rose 0.8%. As we look at the detail for the increase in prices within the services component, the biggest contributor seems to be a 1.6% increase in the index for nonresidential real estate rents. Also contributing to the climb were the indexes for chemicals and allied products wholesaling; portfolio management; legal services; residential property management fees; and metals, minerals and ores wholesaling.

While it will certainly take more than one month of increasing prices to call an end to the disinflationary trend in place for the last year or so, the markets had been expecting cuts in the Fed Funds rate to begin in the first half of the year. To the extent that the inflation data continues to come in hotter than expected, rate cut decisions may continue to get pushed back.

Malcolm E. Polley, CFA®
Chief Market Strategist

Source: “Producer Price Index Release Summary”, U.S. Bureau of Labor Statistics, February 16, 2024; “Producer prices rise more than expected in January”, Reuters, February 16, 2024

Investment advice offered through Stratos Investment Management, a registered investment advisor. The information contained in this market commentary reflects the opinions of Stratos Investment Management. These opinions do not reflect the views of others and are subject to change without notice. Content in this material is intended for general information purposes only and should not be construed as specific investment advice or recommendations for any individual. Please contact your advisor with any questions or for specific recommendations regarding your own circumstances. Investing involves risks including possible loss of principal.