

## February PPI, Small Business Confidence

*Data Consistent with Fed Rate Hike Expectations for Tomorrow*

- The Producer Price Index for Final Demand increased by 0.3 percent in February.
- Core Producer Prices also increased by 0.3 percent.
- The NFIB's Small Business Optimism Index sustained its recent surge, easing slightly to 105.3 in February.

The Producer Price Index for Final Demand increased by a strong 0.3 percent in February after jumping by 0.6 percent in January. The ramp up in producer prices since the first of the year adds support for a fed funds rate increase by the Federal Open Market Committee at the conclusion of their two-day meeting, which began today. The push in February producer prices came both from goods, which gained 0.3 percent, and from services, which gained 0.4 percent for the month. Wholesale energy prices were up another 0.6 percent in February. We will see them dip when the March data is reported, reflecting the recent drop in crude oil prices to just below \$48 per barrel. The gain in services prices was driven by traveler accommodation services (hotels). Over the last 12 months core PPI is up 1.8 percent, while the headline PPI has gained 2.2 percent. Year-over-year growth in headline PPI will continue to get support over the next few months from crude oil as long as current prices are maintained.

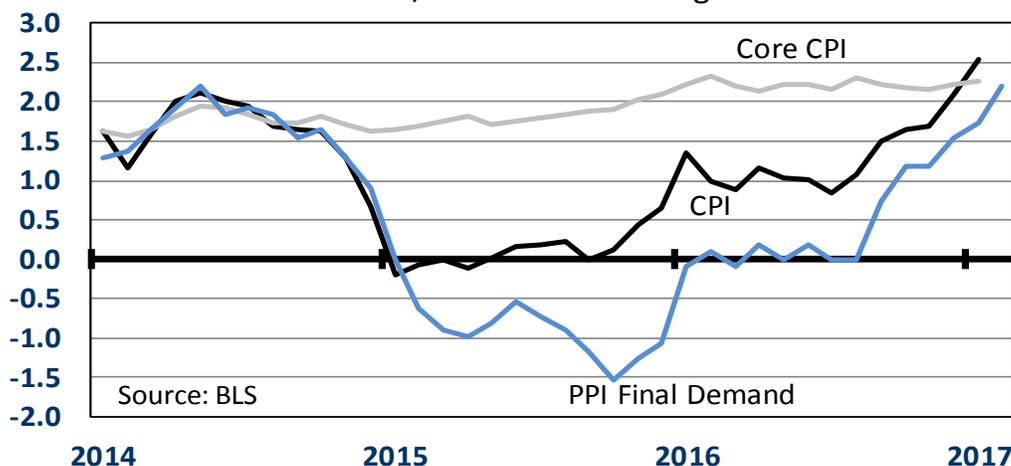
The National Federation of Independent Business's Small Business Optimism Index for February showed that the post-election surge in small business optimism, which first registered in the December NFIB survey, was no fluke. For the third month in row, the NFIB's Small Business Optimism Index has been above 105. The February reading eased slightly from 105.9 in January to 105.3. Stronger business optimism suggests that hiring, business investment plans and sales expectations are positive.

There is nothing in today's U.S. economic data releases to suggest that the Federal Reserve will deviate from the widely expected 25 basis point fed funds rate hike tomorrow. It is going to be a very interesting week. In addition to the expected Fed announcement, we will see the results of the Dutch elections, President Trump will unveil his budget proposal, the Bank of England will release a policy statement as will the Bank of Japan. Also a spate of U.S. data will be released over the next few days that will help shape economic expectations at the end of the first quarter.

**Market Reaction:** U.S. equity markets fell at the opening. The yield on 10-Year Treasury bonds is down to 2.60 percent. NYMEX crude oil is down to \$47.36/barrel. Natural gas futures are down to \$3.02/mmbtu.

## Inflation Indicators Still Heading North

Year/Year Percent Change



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