

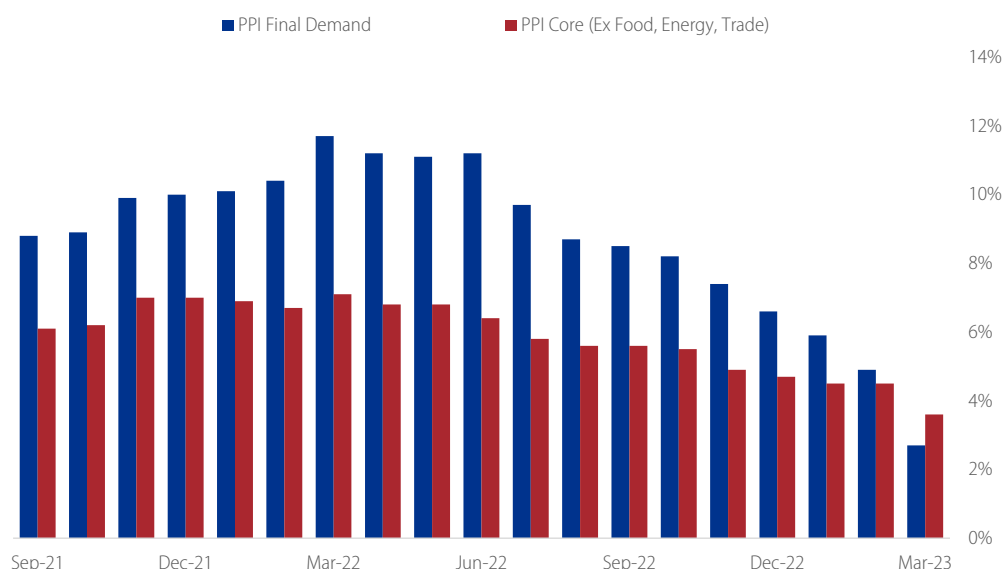
PPI Negative on Lower Gas Prices

The March producer price index (PPI) was littered with upbeat headlines, but similar to yesterday's CPI report, a reversal is likely in April. Headline final demand PPI unexpectedly fell by -0.5% last month, matching a three-year low. But the more impressive headline was the year-over-year pace which tumbled from a revised +4.9% to +2.7%. Just nine months earlier, the annual rate of producer inflation was an alarming +11.3%.

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2012
greg.warner@hilltopsecurities.com

Producer Price Index (Year-over-Year Percent Change)



Source: Bureau of Labor Statistics

However, the biggest contributor to the March decline was gasoline prices, *and that downtrend has since reversed itself*. Energy prices fell -6.4% last month, with pump prices down -11.4%. After the OPEC+ surprise announcement of production cuts on April 2nd, the price of crude oil has jumped roughly 25%. The average nationwide gasoline price was \$3.65 yesterday, up nearly 5% since the cut was announced, and *further increases are expected at the pump*. According to AAA, the price of oil accounts for about 50% of gas prices.

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All that being said, core PPI (which excludes food and energy) also bettered forecasts last month with the first negative reading since June 2020. The -0.1% March decline pulled the annual rate down from +4.8% to +3.4%. A year ago, core PPI was running at an extremely hot +9.2% pace.

Also falling were producer *service* prices, a welcome development since the service sector has been front-and-center on the Fed's radar. While final demand *goods* prices fell -1.0% in March, final demand *services* fell -0.3%, a post-pandemic low.

Bond yields are lower in early trading for the second straight day. With the May FOMC meeting less than three weeks away, it's still more likely than not that committee members will vote for another quarter point increase in the overnight target.

Tomorrow morning, the monthly retail sales report is scheduled for release. After a -0.4% decline in February, forecasters expect negative sales growth in March. A significant decline would pull Q1 GDP lower and provide one more reason for Fed officials to reconsider their policy stance.

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Market Indications as of 9:13 A.M. Central Time

DOW	Up 59 to 33,706 (HIGH: 36,800)
NASDAQ	Up 140 to 12,069 (HIGH: 16,057)
S&P 500	Up 10 to 4,102 (HIGH: 4,797)
1-Yr T-bill	current yield 4.64%; opening yield 4.64%
2-Yr T-note	current yield 3.93%; opening yield 3.95%
3-Yr T-note	current yield 3.66%; opening yield 3.68%
5-Yr T-note	current yield 3.44%; opening yield 3.45%
10-Yr T-note	current yield 3.39%; opening yield 3.39%
30-Yr T-bond	current yield 3.63%; opening yield 3.62%

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