

# MBS & TREASURY MARKETS

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## The Day Ahead: Decent Start Despite Higher Annual Producer Prices

This morning's econ data included weekly jobless claims, which came in roughly in line with forecasts, and the Producer Price Index (PPI) which was a bit different. The month over month change in core PPI was as expected, but the annual change jumped 0.3 above expectations (3.6 vs 3.3). How can that be? Revisions to the past 4 months affect the annual number without necessarily impacting the monthly number. In this case, both December and October were revised 0.1 higher, thus accounting for the 0.2 increase from last month's 3.5% core annual PPI.



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| Month    | Total final demand | Final demand less foods, energy, and trade | Current release    |       |        |                       |                       |       |                                | Change in final demand from 12 months ago (unadj.) | Change in final demand less foods, energy, and trade from 12 mo. ago (unadj.) |       |
|----------|--------------------|--|--------------------|-------|--------|-----------------------|-----------------------|-------|--------------------------------|--|---|-------|
|          |                    |  | Final demand goods |       |        |                       | Final demand services |       |                                |  |   |       |
|          |                    |  | Total              | Foods | Energy | Less foods and energy | Total                 | Trade | Transportation and warehousing |  |   | Other |
| 2024     |                    |  |                    |       |        |                       |                       |       |                                |  |   |       |
| Jan.     | 0.4                | 0.4  | 0.1                | 0.2   | -0.4   | 0.3                   | 0.5                   | 0.3   | -0.1                           | 0.6  | 1.0   | 2.7   |
| Feb.     | 0.5                | 0.3  | 0.9                | 1.2   | 2.7    | 0.3                   | 0.3                   | 0.2   | 1.0                            | 0.3  | 1.6   | 2.8   |
| Mar.     | 0.1                | 0.2  | -0.1               | -0.1  | -0.9   | 0.0                   | 0.1                   | -0.3  | 0.3                            | 0.3  | 2.0   | 2.9   |
| Apr.     | 0.5                | 0.5  | 0.3                | -0.1  | 1.0    | 0.3                   | 0.6                   | 0.5   | -0.6                           | 0.7  | 2.3   | 3.2   |
| May      | 0.0                | 0.2  | -0.6               | -0.3  | -3.5   | 0.3                   | 0.3                   | 0.6   | -0.6                           | 0.3  | 2.5   | 3.4   |
| June     | 0.4                | 0.2  | -0.2               | 0.2   | -1.6   | 0.1                   | 0.7                   | 1.8   | -0.1                           | 0.2  | 2.9   | 3.4   |
| July     | 0.0                | 0.4  | 0.4                | 0.2   | 1.5    | 0.2                   | -0.2                  | -1.7  | 1.2                            | 0.4  | 2.4   | 3.5   |
| Aug.     | 0.3                | 0.2  | 0.0                | 0.7   | -1.5   | 0.2                   | 0.5                   | 1.1   | -0.7                           | 0.4  | 2.1   | 3.5   |
| Sept.(1) | 0.3                | 0.2  | -0.2               | 0.5   | -2.0   | 0.1                   | 0.5                   | 1.2   | 0.0                            | 0.3  | 2.1   | 3.4   |
| Oct.(1)  | 0.2                | 0.3  | 0.1                | -0.6  | 0.3    | 0.2                   | 0.2                   | 0.1   | 0.3                            | 0.3  | 2.7   | 3.6   |
| Nov.(1)  | 0.2                | 0.1  | 0.6                | 2.1   | 0.3    | 0.2                   | 0.1                   | 0.0   | -0.3                           | 0.2  | 2.9   | 3.6   |
| Dec.(1)  | 0.5                | 0.4  | 0.5                | 0.4   | 2.2    | 0.1                   | 0.5                   | 0.6   | 2.5                            | 0.3  | 3.5   | 3.5   |
| 2025     |                    |  |                    |       |        |                       |                       |       |                                |  |   |       |
| Jan.     | 0.4                | 0.3  | 0.6                | 1.1   | 1.7    | 0.1                   | 0.3                   | 0.1   | 0.6                            | 0.4  | 3.5   | 3.4   |

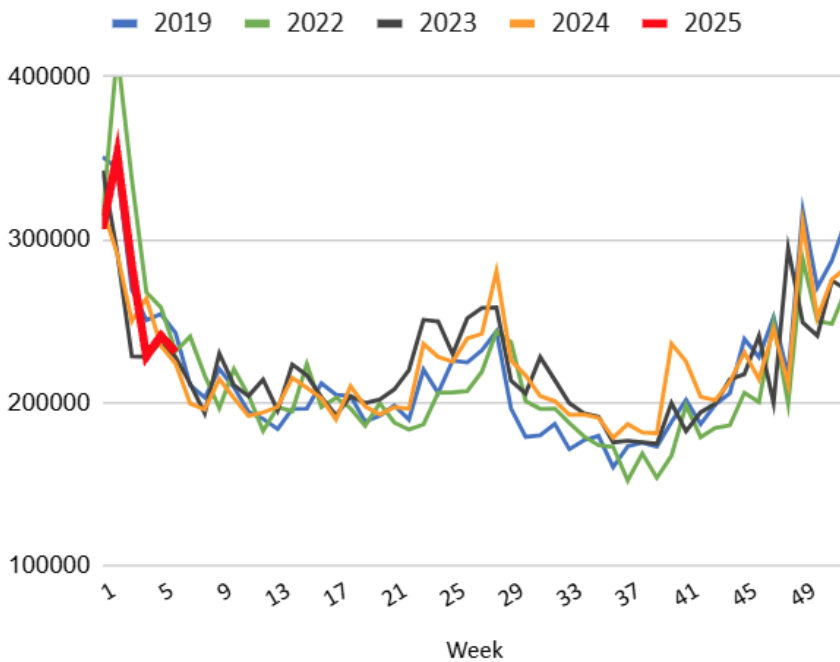
| Month    | Total final demand | Final demand less foods, energy, and trade | Previous release   |       |        |                       |                       |       |                                | Change in final demand from 12 months ago (unadj.) | Change in final demand less foods, energy, and trade from 12 mo. ago (unadj.) |       |
|----------|--------------------|--|--------------------|-------|--------|-----------------------|-----------------------|-------|--------------------------------|--|---|-------|
|          |                    |  | Final demand goods |       |        |                       | Final demand services |       |                                |  |   |       |
|          |                    |  | Total              | Foods | Energy | Less foods and energy | Total                 | Trade | Transportation and warehousing |  |   | Other |
| 2023     |                    |  |                    |       |        |                       |                       |       |                                |  |   |       |
| Dec.     | -0.1               | 0.3  | -0.1               | 0.0   | -0.8   | 0.1                   | -0.1                  | -1.2  | -0.2                           | 0.5  | 1.1   | 2.7   |
| 2024     |                    |  |                    |       |        |                       |                       |       |                                |  |   |       |
| Jan.     | 0.4                | 0.6  | -0.1               | -0.3  | -1.1   | 0.3                   | 0.6                   | 0.1   | -0.2                           | 0.9  | 1.0   | 2.7   |
| Feb.     | 0.6                | 0.4  | 1.1                | 1.0   | 3.9    | 0.3                   | 0.3                   | 0.3   | 1.2                            | 0.3  | 1.6   | 2.8   |
| Mar.     | 0.0                | 0.2  | -0.2               | 0.3   | -1.2   | 0.0                   | 0.1                   | -0.4  | 0.2                            | 0.3  | 2.0   | 2.9   |
| Apr.     | 0.5                | 0.5  | 0.4                | -0.8  | 1.8    | 0.3                   | 0.6                   | 0.5   | -0.5                           | 0.7  | 2.3   | 3.2   |
| May      | 0.0                | 0.2  | -0.8               | -0.1  | -4.6   | 0.2                   | 0.4                   | 0.8   | -0.8                           | 0.3  | 2.5   | 3.4   |
| June     | 0.4                | 0.2  | -0.3               | 0.1   | -2.0   | 0.1                   | 0.7                   | 1.9   | -0.1                           | 0.3  | 2.9   | 3.4   |
| July     | 0.0                | 0.4  | 0.6                | 0.6   | 1.7    | 0.2                   | -0.2                  | -1.9  | 1.2                            | 0.4  | 2.4   | 3.5   |
| Aug.(1)  | 0.3                | 0.2  | 0.0                | 0.3   | -1.0   | 0.2                   | 0.5                   | 1.1   | -0.8                           | 0.4  | 2.1   | 3.5   |
| Sept.(1) | 0.2                | 0.1  | -0.3               | 0.8   | -2.9   | 0.1                   | 0.5                   | 1.3   | 0.0                            | 0.1  | 2.1   | 3.3   |
| Oct.(1)  | 0.2                | 0.3  | 0.1                | -0.1  | 0.4    | 0.1                   | 0.3                   | 0.0   | 0.4                            | 0.4  | 2.6   | 3.5   |
| Nov.(1)  | 0.4                | 0.1  | 0.7                | 2.9   | 0.0    | 0.2                   | 0.3                   | 0.7   | -0.6                           | 0.2  | 3.0   | 3.5   |
| Dec.     | 0.2                | 0.1  | 0.6                | -0.1  | 3.5    | 0.0                   | 0.0                   | -0.1  | 2.2                            | -0.2   | 3.3   | 3.3   |

Meanwhile, the monthly change in January was not only on target, but also good news for the components that flow through to PCE inflation (which the Fed watches more closely).

|  | Jan.  | Dec. | Nov.  | Oct.  | Sept. | Jan.  |
|--|-------|------|-------|-------|-------|-------|
|  | 2025  | 2024 | 2024  | 2024  | 2024  | 2025  |
|  | MoM%  |      |       |       |       | YoY%  |
| <b>PPI total final demand</b>                              | 0.4%  | 0.5% | 0.2%  | 0.2%  | 0.3%  | 3.5%  |
| <b>PPI Components for Personal Consumption Expenditure</b> |       |      |       |       |       |       |
| Airline passenger services                                 | -0.3% | 5.0% | -0.6% | 1.9%  | 1.0%  | 4.3%  |
| Portfolio management                                       | 0.4%  | 0.6% | -0.6% | 3.3%  | 0.7%  | 12.1% |
| Physician care   | -0.5% | 0.3% | 0.1%  | 0.5%  | 0.6%  | 1.7%  |
| Home health, hospice care                                  | -0.3% | 0.2% | -0.3% | 0.3%  | 2.9%  | 3.6%  |
| Hospital outpatient care                                   | -0.4% | 0.6% | 0.3%  | 0.4%  | 0.3%  | 3.1%  |
| Hospital inpatient care                                    | -0.3% | 0.0% | 0.2%  | -0.1% | 0.3%  | 2.0%  |
| Nursing home care  | -0.1% | 1.1% | 0.0%  | 0.7%  | 0.4%  | 2.3%  |

Jobless Claims were a non-event, but at least not showing additional labor market tightening.

**Jobless Claims, Week by Week, Not Seasonally Adjusted**



The net effect in bonds is a relative sigh of relief after yesterday's high alert following CPI.

