

MBS & TREASURY MARKETS

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A message from Randy Vance:

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The Day Ahead: Paradoxical Inflation Report Reaction, PPI Edition

Seemingly overnight (i.e. over the past 30 days when it comes to markets reacting to economic data), the CPI and PPI inflation numbers that normally impact bonds have been overlooked in favor of a handful of line items buried within each report. The line items in question are those that impact the PCE price index (released 2 weeks from now). In today's case, those specific line items pointed toward higher PCE inflation even though headline/core PPI inflation was lower than forecast.

	Feb.	Jan.	Dec.	Nov.	Oct.	Feb.
	2025	2025	2024	2024	2024	2025
	MoM%					YoY%
PPI total final demand	0.0%	0.6%	0.5%	0.1%	0.3%	3.2%
PPI Components for Personal Consumption Expenditure						
Airline passenger services	0.0%	0.1%	5.0%	-0.5%	1.9%	2.4%
Portfolio management	0.5%	0.5%	1.8%	-0.7%	2.8%	13.4%
Physician care	0.1%	-0.4%	0.2%	0.1%	0.5%	1.8%
Home health, hospice care	0.3%	-0.2%	0.2%	-0.2%	0.6%	4.2%
Hospital outpatient care	0.3%	-0.7%	0.6%	0.3%	0.4%	2.5%
Hospital inpatient care	1.0%	-0.5%	0.0%	0.2%	-0.1%	2.6%
Nursing home care	0.1%	0.4%	0.9%	0.1%	0.6%	2.7%

SOURCE: Bureau of Labor Statistics

To recap, PCE is a more important inflation number than CPI or PPI, but CPI/PPI come out 2 weeks earlier and several of their components flow directly into the PCE calculation. For the 2nd day in a row, those components were higher (bad for bonds), even though CPI/PPI came in lower.

