

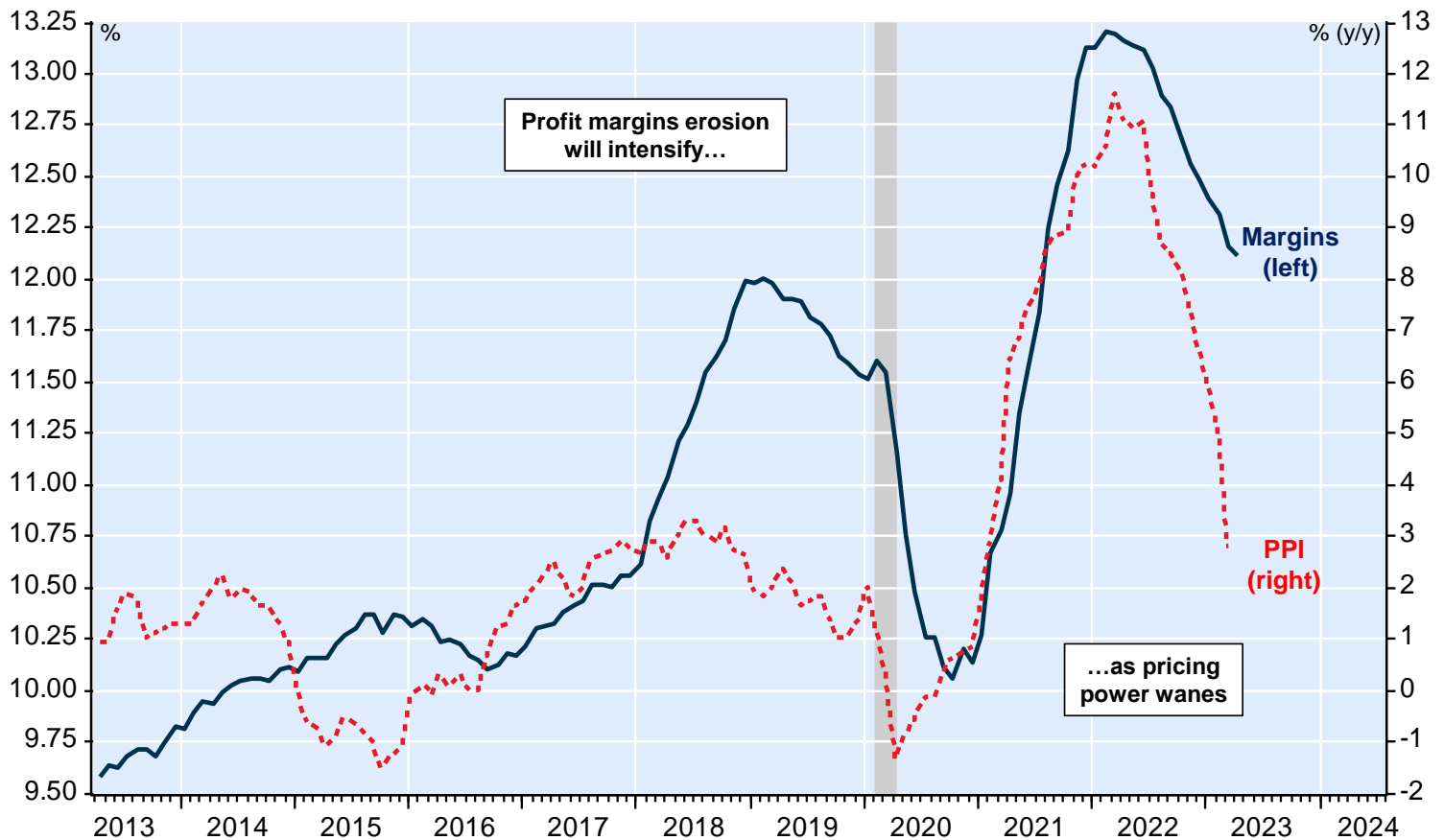
U.S. Watch

By Stéfane Marion

The Producer Price Index (PPI) measures the change in prices received by US producers. It is therefore the PPI that determines corporate profits, not the CPI. Unfortunately, the newly released data show a significant erosion of the pricing power of US companies. According to the [BLS](#), the final demand PPI fell by 0.5% in March, the third decline in four months and the largest monthly decline in three years. As today's Hot Chart shows, annual PPI inflation was 2.7% in March, down from a record 12% at this time last year. If the past is anything to go by, this erosion of pricing power will have the effect of reducing profit margins in the coming months (PPI is three months ahead of margins). Such an outcome is unlikely to be welcomed by investors, given that forward guidance for S&P 500 companies are for stable margins in the year ahead. It is important to note that declining profit margins are normally an early warning sign of deteriorating labour markets.

U.S.: Profit margin erosion will intensify

S&P 500 profit margins (12-month trailing) vs. PPI for final demand



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