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# April PPI

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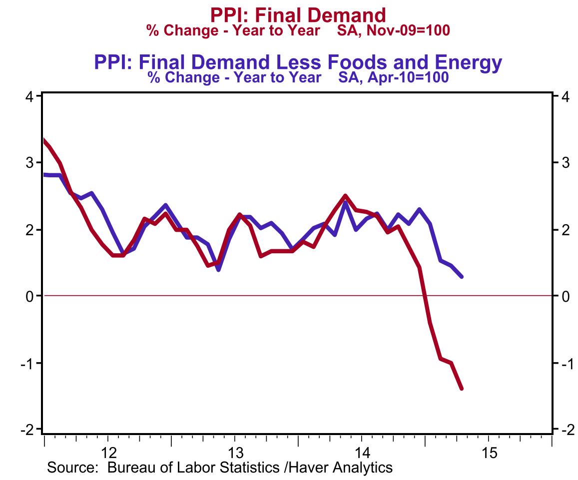
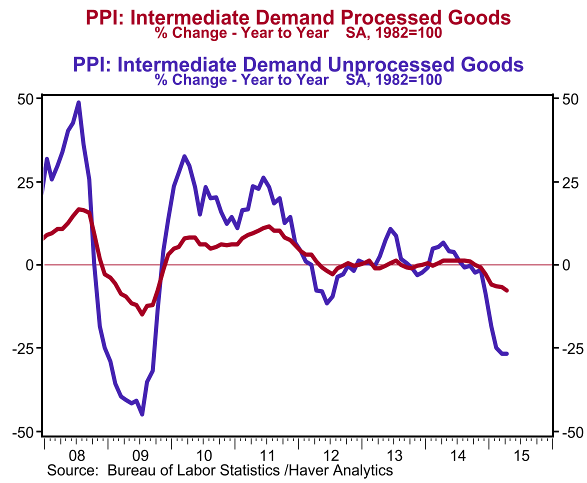
- The Producer Price Index (PPI) declined 0.4% in April, coming in below the consensus expected gain of 0.1%. Producer prices are down 1.3% versus a year ago.
- Energy prices dropped 2.9% in April while food prices fell 0.9%. Producer prices excluding food and energy declined 0.1%.
- In the past year, prices for services are up 0.9%, while prices for goods are down 5.2%. Private capital equipment prices declined 0.3% in April but are up 0.1% in the past year.
- Prices for intermediate processed goods declined 1.1% in April, and are down 7.6% versus a year ago. Prices for intermediate unprocessed goods increased 0.9% in April, but are down 26.7% versus a year ago.




**Implications**: Forget about producer prices for a minute. The most important economic news today was new claims for unemployment insurance dropping 1,000 last week to 264,000. The four week average declined to 272,000, the lowest level in 15 years. Continuing unemployment claims were unchanged at 2.23 million, also the lowest since 2000. These data point to another solid payroll number in May. On the inflation front, as Milton Friedman used to say, the relationship between monetary policy and inflation is long and variable. And in this cycle, it's longer than usual. After several years of loose monetary policy, inflation is still not a problem for producers. The producer price index declined 0.4% in April, falling for the fifth time in the past six months. Food and energy prices, which are volatile, fell 0.9% and 2.9% respectively, in April. Energy prices are now down 24% versus a year ago, so it shouldn't be any surprise that overall producer prices are down 1.3% from last year. But even prices outside the food and energy sectors remain relatively quiet for now. Service prices have increased 0.9% in the past year while "core" goods, which exclude food and energy, are up 0.4%. Given the extended period of loose monetary policy and the recent (partial) rebound in oil prices, we expect producer price inflation to be more of an issue in the year ahead. Other factors may play a role as well. For example, April price declines were also seen in trade, transportation and warehousing, which might be a temporary hangover from the West Coast port strikes. As a result, we expect inflation to pick up in the year ahead and should do so more quickly than most investors expect. In turn, this likely means higher bond yields and a more aggressive Fed than is right now priced into market expectations.

| Producer Price Index<br>*All Data Seasonally Adjusted* | Apr-15 | Mar-15 | Feb-15 | 3-mo % Ch.<br>annualized | 6-mo % Ch.<br>annualized | Yr to Yr<br>% Change |
|---|---|---|---|---|---|---|
| ***Final Demand*** | **-0.4%** | 0.2% | -0.5% | -2.5% | -3.7% | -1.3% |
| ***Goods*** | **-0.7%** | 0.3% | -0.4% | -3.3% | -9.3% | -5.2% |
| ***- Ex Food & Energy*** | **-0.1%** | 0.2% | -0.1% | 0.0% | -0.2% | 0.4% |
| ***Services*** | **-0.1%** | 0.1% | -0.5% | -1.8% | -0.5% | 0.9% |
| ***Private Capital Equipment*** | **-0.3%** | 0.0% | -0.3% | -2.2% | -0.4% | 0.1% |
| ***Intermediate Demand*** | | | | | | |
| ***Processed Goods*** | **-1.1%** | -0.1% | -0.6% | -6.9% | -13.1% | -7.6% |
| ***- Ex Food & Energy*** | **-0.5%** | -0.2% | -0.4% | -4.3% | -6.0% | -2.9% |
| ***Unprocessed Goods*** | **0.9%** | -1.7% | -3.9% | -17.3% | -33.9% | -26.7% |
| ***- Ex Food & Energy*** | **0.0%** | -2.3% | -5.2% | -26.6% | -18.8% | -14.2% |
| ***Services*** | **0.5%** | 0.2% | 0.1% | 3.3% | 1.5% | 1.8% |

*Source: Bureau of Labor Statistics*