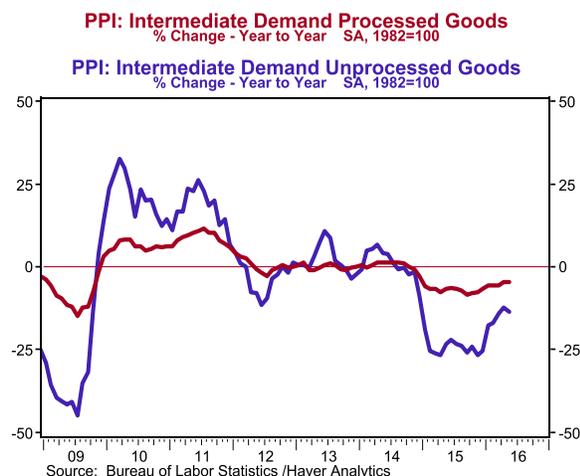
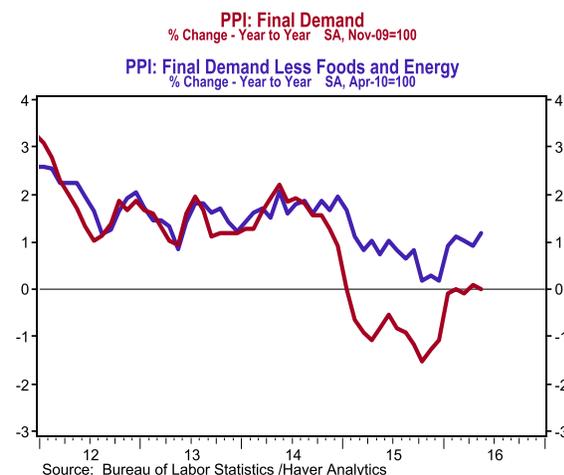


May PPI

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- The Producer Price Index (PPI) increased 0.4% in May, coming in above the consensus expected rise of 0.3%. Producer prices are unchanged versus a year ago.
- The rise in producer prices in May was led by final demand goods, up 0.7%. Energy prices rose 2.8% in May while food prices increased 0.3%. Producer prices excluding food and energy rose 0.3%.
- In the past year, prices for services are up 1.3%, while prices for goods are down 2.5%. Private capital equipment prices rose 0.8% in May and are up 2.1% in the past year.
- Prices for intermediate processed goods rose 0.8% in May but are down 4.5% versus a year ago. Prices for intermediate unprocessed goods rose 1.3% in May but are down 13.7% versus a year ago.

Implications: Blame it on the May jobs report, blame it on uncertainty surrounding the Brexit vote. Either way, the Fed will likely stand pat on rates at today's meeting. But this morning's report on producer prices says they shouldn't. Combined with retail sales data, today's PPI data suggest a July hike is very likely. After pulling down the index for a long time, energy prices rose 2.8% in May, leading the index higher. Oil prices have fallen slightly in June, but we do not expect another large decline. Goods prices (which include energy) rose 0.7% in May, the largest monthly gain in a year, while service prices ticked up 0.2%, led by increased margins to wholesalers and retailers. As a result, the headline measure of inflation rose 0.4% in May and is showing acceleration towards the Fed's 2% target, up at a 1.8% annual rate in the past three months compared to a 0.7% annual rate in the past six months and no change in the past year. While the Fed pays attention to overall prices, they place greater weight on "core" prices, which exclude the volatile food and energy components. The "core" measure for producer prices rose 0.3% in May, and these prices are now up 1.2% in the past year. So while inflation remains modest, the U.S. is not experiencing deflation, and rising energy prices may push inflation up at a faster pace than many are expecting. With energy prices stable to higher, expect the employment report on July 8th to be the major factor determining if the Fed raises rates at their July meeting.



Producer Price Index <i>All Data Seasonally Adjusted</i>	May-16	Apr-16	Mar-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.4%	0.2%	-0.1%	1.8%	0.7%	0.0%
Goods	0.7%	0.2%	0.2%	4.2%	-1.5%	-2.5%
- Ex Food & Energy	0.3%	0.3%	0.1%	2.6%	1.8%	0.7%
Services	0.2%	0.1%	-0.2%	0.4%	2.0%	1.3%
Private Capital Equipment	0.8%	0.0%	-0.5%	1.5%	3.8%	2.1%
Intermediate Demand						
Processed Goods	0.8%	0.3%	-0.2%	3.8%	-3.7%	-4.5%
- Ex Food & Energy	0.5%	0.3%	-0.1%	2.6%	-1.0%	-2.1%
Unprocessed Goods	1.3%	2.6%	2.5%	28.8%	0.0%	-13.7%
- Ex Food & Energy	4.2%	3.5%	2.1%	46.8%	19.1%	-2.8%
Services	-0.2%	0.1%	-0.3%	-1.4%	2.6%	0.9%

Source: Bureau of Labor Statistics