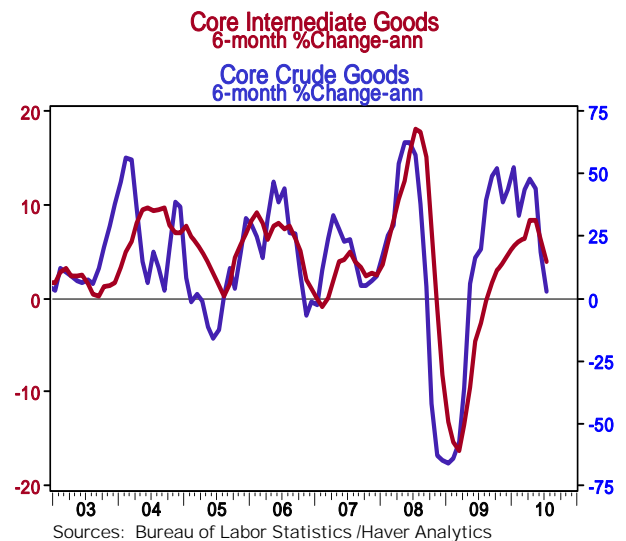
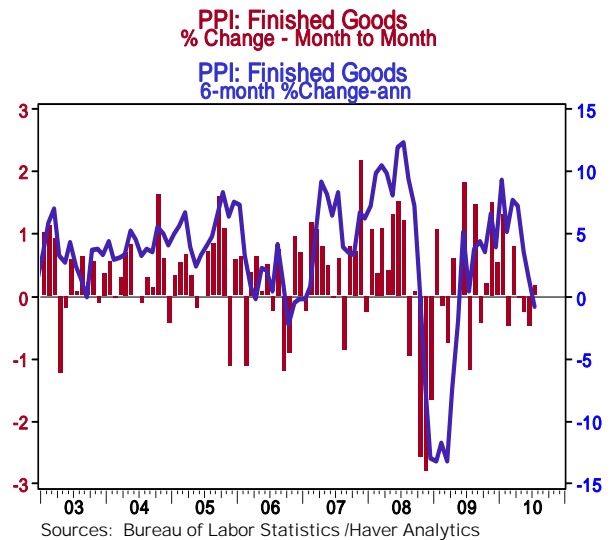


# JULY PPI

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- The Producer Price Index (PPI) increased 0.2% in July, matching the consensus expected gain. The PPI is up 4.2% versus a year ago.
- The July rise in the PPI was mostly due to food, which increased 0.7%. Energy prices fell 0.9%. The “core” PPI, which excludes food and energy, was up 0.3%, much more than the consensus expected gain of 0.1%.
- Consumer goods prices rose 0.1% in July and are up 5.6% versus last year. Capital equipment prices were up 0.3% in July and are up 0.7% in the past year.
- Intermediate goods prices declined 0.4% in July but are up 6.4% versus a year ago. Crude prices increased 2.7% in July and are up 20.7% in the past twelve months.

**Implications:** Inflation was alive and all too well in July, undermining the notion that the US is headed for deflation. That deflation story started to take hold in the prior three months, as commodity prices fell and overall producer prices declined at a 3.3% annual rate. Yet with the 0.2% increase in July, producer prices are up 4.2% versus a year ago. The increase in July was largely due to food, which increased 0.7%, a rebound after the second largest monthly drop in food prices since the early 1970s. “Core” producer prices, which exclude food and energy, continue to accelerate, rising 0.3% in July and up 1.5% in the past year. That 1.5% may not sound like much, but as recently as September 2009, the year-to-year change in core producer prices was a mere 0.7%. Prices further up the production process were mixed, with intermediate goods prices falling 0.4% while crude prices increased 2.7%. Recent months have seen both of these sets of prices decline, although both are still up substantially from year-ago levels. With the Fed continuing to be too pessimistic on the economy and holding rates too low, we anticipate the underlying trend in inflation to be upward.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jul-10	Jun-10	May-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	<b>0.2%</b>	-0.5%	-0.3%	-2.4%	-0.8%	4.2%
<i>Ex Food and Energy</i>	<b>0.3%</b>	0.1%	0.2%	2.6%	2.0%	1.5%
<b>Food</b>	<b>0.7%</b>	-2.2%	-0.6%	-8.4%	1.0%	4.4%
<b>Energy</b>	<b>-0.9%</b>	-0.5%	-1.5%	-10.9%	-9.8%	12.0%
<b>Consumer Goods</b>	<b>0.1%</b>	-0.6%	-0.5%	-4.0%	-1.6%	5.6%
<b>Capital Equipment</b>	<b>0.3%</b>	0.0%	0.1%	1.5%	1.1%	0.7%
<b>Intermediate Goods</b>	<b>-0.4%</b>	-0.9%	0.4%	-3.7%	0.8%	6.4%
<i>Ex Food &amp; Energy</i>	<b>-0.4%</b>	-0.4%	0.3%	-2.2%	4.0%	4.8%
<b>Energy</b>	<b>-0.7%</b>	-2.6%	0.5%	-10.8%	-9.2%	14.0%
<b>Crude Goods</b>	<b>2.7%</b>	-2.4%	-2.8%	-10.0%	-7.8%	20.7%
<i>Ex Food &amp; Energy</i>	<b>-1.4%</b>	-4.8%	-1.6%	-27.2%	2.6%	25.1%
<b>Energy</b>	<b>4.5%</b>	1.7%	-5.1%	3.4%	-19.3%	25.4%

Source: Bureau of Labor Statistics