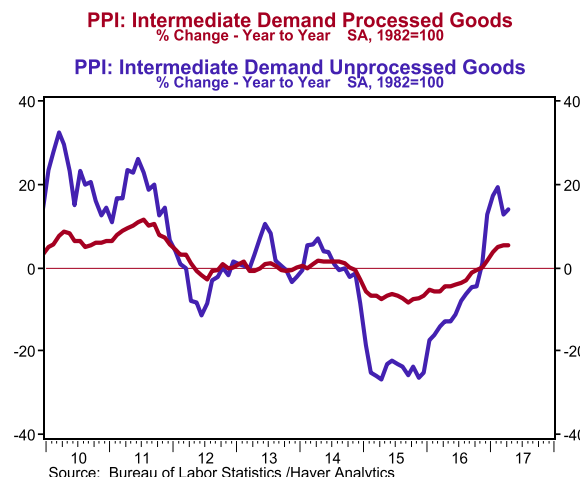
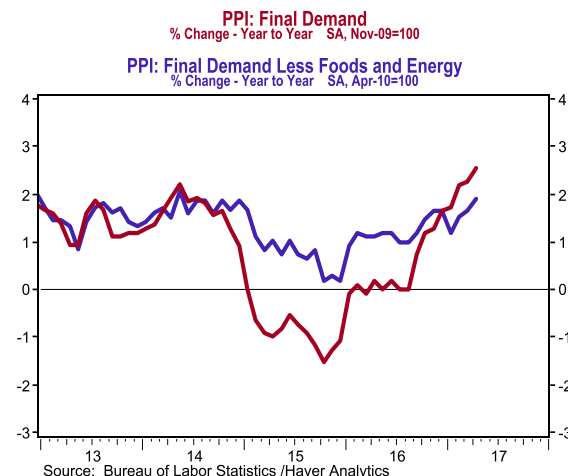


April PPI

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- The Producer Price Index (PPI) rose 0.5% in April, well above the consensus expected 0.2%. Producer prices are up 2.5% versus a year ago.
- Energy prices rose 0.8% in April, while food prices increased 0.9%. Producer prices excluding food and energy rose 0.4%.
- In the past year, prices for goods are up 4.0%, while prices for services are up 1.8%. Private capital equipment prices were up 0.4% in April and are up 1.2% in the past year.
- Prices for intermediate processed goods rose 0.5% in April and are up 5.4% versus a year ago. Prices for intermediate unprocessed goods increased 3.3% in April and are up 14.0% versus a year ago.

Implications: Inflation is heating up. Producer prices surged in April, rising a robust 0.5% after March’s slight decline. In the past year, producer prices are up 2.5%, the largest 12-month increase since 2012. Services, up 0.4% in April, led producer prices higher. And the increases were not limited to a select few categories, as prices rose nearly across the board. Food prices increased 0.9% in April, and energy prices rose 0.8%. While energy prices have been a driver behind the headline inflation readings since oil bottomed in early 2016, “core” prices, which exclude food and energy, rose 0.4% in April, and are now up 1.9% in the past year. Some will note that this core measure is still below the Fed’s 2% inflation target, but a closer look shows core prices are up at a 2.7% annual rate in the past six months and a 2.9% annual rate over the past three months. In other words, inflation is showing signs of acceleration. As a result, investors should still expect another rate hike at the next Fed meeting in mid-June and at least one additional rate hike by the end of the year. In addition, we expect the Fed to start re-normalizing its bloated balance sheet, by the end of the year. While the primary focus is usually on final demand prices, costs earlier in the production process are rising as well, with both processed and unprocessed goods showing 12-month price increases near five-year highs. These input cost increases will continue to put pressure on final demand prices in the months ahead. Expect the trend of rising costs in both the goods and service sectors to hold overall inflation at or above the Fed’s 2% inflation target. Other recent news on inflation confirms the accelerating trend. Import prices rose 0.5% in April and are up 4.1% from a year ago; export prices rose 0.2% in April, and have increased 3.0% in the past year. In employment news this morning, new claims for unemployment insurance declined 2,000 last week to 236,000. Continuing claims fell 61,000 to 1.92 million, the lowest reading since 1988, back when the labor force was roughly 122 million versus about 160 million today. It’s still very early, but these figures suggest May is another month of robust job growth, likely north of 200,000.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Apr-17	Mar-17	Feb-17	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.5%	-0.1%	0.3%	2.9%	3.3%	2.5%
Goods	0.5%	-0.1%	0.3%	2.6%	4.9%	4.0%
- Ex Food & Energy	0.3%	0.4%	0.1%	2.9%	3.3%	2.3%
Services	0.4%	-0.1%	0.4%	3.2%	2.5%	1.8%
Private Capital Equipment	0.4%	0.0%	0.2%	2.2%	2.2%	1.2%
Intermediate Demand						
Processed Goods	0.5%	0.1%	0.4%	4.3%	6.2%	5.4%
- Ex Food & Energy	0.5%	0.7%	0.5%	6.7%	5.4%	3.8%
Unprocessed Goods	3.3%	-4.2%	-0.2%	-4.6%	23.2%	14.0%
- Ex Food & Energy	-0.7%	2.0%	1.4%	11.3%	25.9%	13.0%
Services	0.9%	-0.2%	0.5%	5.0%	4.1%	2.6%

Source: Bureau of Labor Statistics