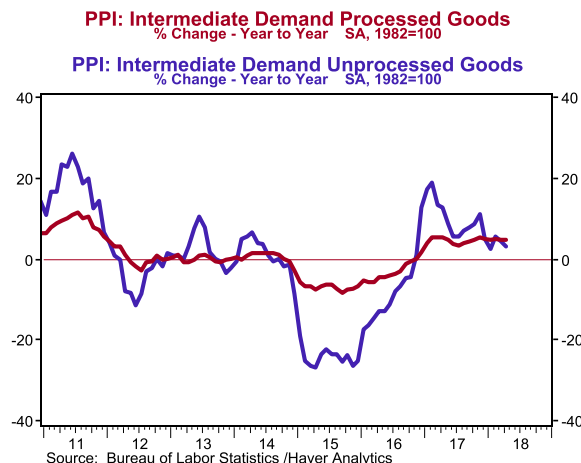
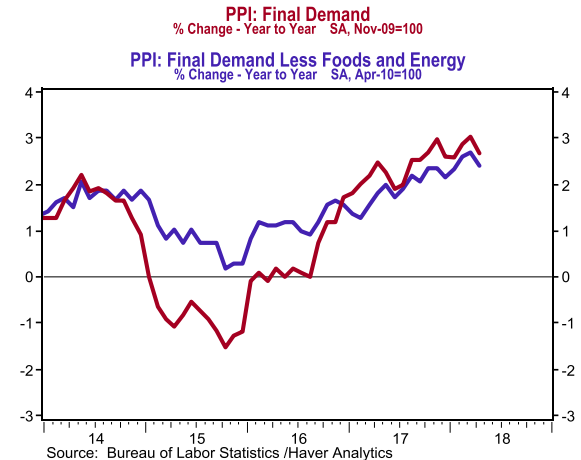


April PPI

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- The Producer Price Index (PPI) increased 0.1% in April, coming in below the consensus expected rise of 0.2%. Producer prices are up 2.6% versus a year ago.
- Food prices declined 1.1% in April, while energy prices rose 0.1%. Producer prices excluding food and energy increased 0.2% in April and are up 2.3% in the past year.
- In the past year, prices for goods are up 2.9%, while prices for services are up 2.4%. Private capital equipment prices increased 0.4% in April and are up 3.0% in the past year.
- Prices for intermediate processed goods rose 0.5% in April and are up 4.7% versus a year ago. Prices for intermediate unprocessed goods increased 0.9% in April and are up 3.2% versus a year ago.



Implications: Producer prices rose 0.1% in April, a slightly slower pace than we’ve seen in recent months. That said, producer prices are up 2.6% in the past year, marking an eighth consecutive month of prices rising at or above 2.5% on a year-to-year basis. Producer price inflation tends to run about a quarter percent point above the Fed’s preferred inflation measure, the PCE price index, year-to-year. So today’s report underscores that inflation is running modestly above the Fed’s 2% long-term inflation target. And headline producer prices were held back in April by a 1.1% decline in food, which was, in turn, led by a 17.8% drop in the cost of vegetables. Meanwhile, energy prices rose 0.1%. Strip out the typically volatile food and energy groupings, and “core” producer prices rose 0.2% in April and are up 2.3% in the past year. For comparison, “core” prices rose 1.9% in the twelve months ending April 2017, and 1.1% in the twelve months ending April 2016. And a look further down the pipeline shows the trend higher is likely to continue in the coming months. Intermediate processed goods rose 0.5% in April, and are up 4.7% from a year ago, while unprocessed goods prices increased 0.9% in April and are up 3.2% in the past year. In short, producer prices are rising at a healthy pace, and the data gives the Fed a green light to raise rates three more times in 2018, so four rate hikes this year in total. The pouting pundits of pessimism may cry fears of rising rates slowing economic activity, but the Federal Reserve is still running a loose monetary policy. This is especially true as anti-bank attitudes and regulation are being reversed, which reduces headwinds to monetary growth. Given the pickup in inflation, and with employment growth remaining strong, the greater risk now is that the Fed falls behind the curve.

| Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i> | Apr-18 | Mar-18 | Feb-18 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|--|---------------|---------------|---------------|----------------------------------|----------------------------------|------------------------------|
| Final Demand | 0.1% | 0.3% | 0.2% | 2.1% | 2.8% | 2.6% |
| Goods | 0.0% | 0.3% | -0.1% | 0.7% | 3.6% | 2.9% |
| - Ex Food & Energy | 0.3% | 0.3% | 0.2% | 3.2% | 2.8% | 2.1% |
| Services | 0.1% | 0.3% | 0.3% | 2.5% | 2.1% | 2.4% |
| Private Capital Equipment | 0.4% | 0.8% | -0.3% | 4.0% | 3.2% | 3.0% |
| Intermediate Demand | | | | | | |
| Processed Goods | 0.5% | -0.3% | 0.7% | 3.7% | 5.5% | 4.7% |
| - Ex Food & Energy | 0.3% | 0.3% | 0.7% | 4.8% | 4.6% | 3.4% |
| Unprocessed Goods | 0.9% | -4.8% | 2.8% | -4.7% | 7.9% | 3.2% |
| - Ex Food & Energy | 0.7% | 1.5% | -0.3% | 7.9% | 14.9% | 8.1% |
| Services | 0.3% | 0.3% | 0.5% | 4.9% | 3.1% | 3.1% |

Source: Bureau of Labor Statistics

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.