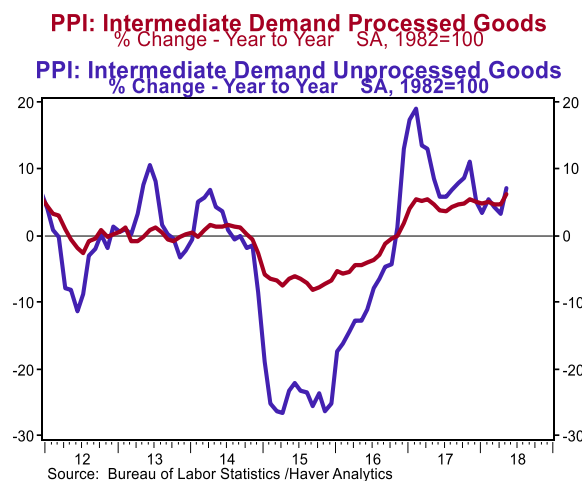
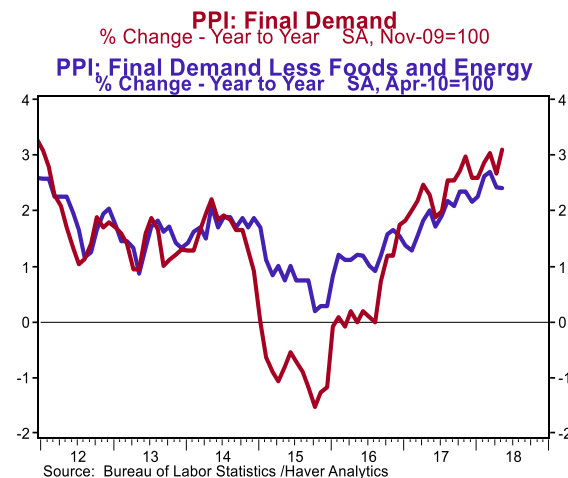


May PPI

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- The Producer Price Index (PPI) increased 0.5% in May, coming in well above the consensus expected rise of 0.3%. Producer prices are up 3.1% versus a year ago.
- Energy prices rose 4.6% in May, while food prices rose 0.1%. Producer prices excluding food and energy increased 0.3% in May and are up 2.4% in the past year.
- In the past year, prices for goods are up 4.4%, while prices for services are up 2.4%. Private capital equipment prices increased 0.4% in May and are up 3.1% in the past year.
- Prices for intermediate processed goods rose 1.5% in May and are up 6.3% versus a year ago. Prices for intermediate unprocessed goods increased 2.5% in May and are up 6.8% versus a year ago.

Implications: Any lingering shred of doubt that the Fed will raise rates later today can be put to rest. Producer prices rose 0.5% in May, matching the largest single-month increase in more than five years. More important, producer prices are up 3.1% in the past year, a ninth consecutive month of prices rising at or above 2.5% on a year-to-year basis, and the largest twelve-month increase since January of 2012. And price gains have been accelerating, up 3.2% at an annual rate in the past six months, and up at a 3.5% annual rate over the last three. While energy prices led the rise in May, jumping 4.6%, prices rose nearly across the board. Even stripping out energy and the 0.1% increase in food prices, “core” producer prices rose 0.3% in May and are up 2.4% in the past year. The increase in core prices was led by trade services (think margins to wholesalers), as well as transportation and warehousing services. To put the rising trend in perspective, core prices rose 2.0% in the twelve months ending May 2017, and 1.2% in the twelve months ending May 2016. And a look further down the pipeline shows the trend of rising inflation is likely to continue in the months ahead. Intermediate processed goods rose 1.5% in May, and are up 6.3% from a year ago, while unprocessed goods prices increased 2.5% in May and are up 6.8% in the past year. In short, inflation is running comfortably above the Fed’s 2% inflation target, and, with job growth remaining robust, pressure is on the Fed not to fall behind the curve. In addition to a 25 basis point rate hike today, look for updates in projection materials - the “dot plot” - to show a shift in FOMC member expectations towards two more hikes in 2018 (so including today’s hike, four total this year), with three to four hikes anticipated in 2019. [As we noted Monday](#), this pace of hikes is no reason to fear. Monetary policy isn’t becoming tight, just a little less loose.



Producer Price Index All Data Seasonally Adjusted Except for Yr to Yr	May-18	Apr-18	Mar-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	0.5%	0.1%	0.3%	3.5%	3.2%	3.1%
Goods	1.0%	0.0%	0.3%	5.0%	3.9%	4.4%
- Ex Food & Energy	0.3%	0.3%	0.3%	3.5%	2.8%	2.5%
Services	0.3%	0.1%	0.3%	2.4%	2.5%	2.4%
Private Capital Equipment	0.4%	0.4%	0.8%	6.9%	3.6%	3.1%
Intermediate Demand						
Processed Goods	1.5%	0.5%	-0.3%	6.8%	6.9%	6.3%
- Ex Food & Energy	0.8%	0.3%	0.3%	5.3%	5.3%	4.2%
Unprocessed Goods	2.5%	0.9%	-4.8%	-5.7%	7.8%	6.8%
- Ex Food & Energy	-0.1%	0.7%	1.5%	8.8%	15.2%	8.8%
Services	0.3%	0.3%	0.3%	3.8%	3.3%	3.3%

Source: Bureau of Labor Statistics