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July PPI

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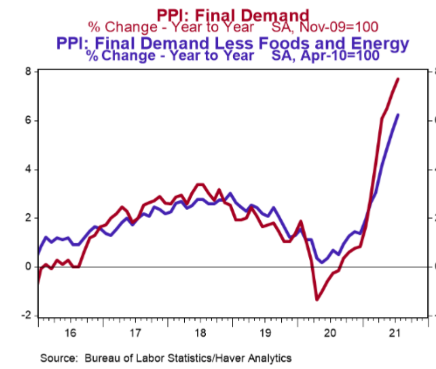
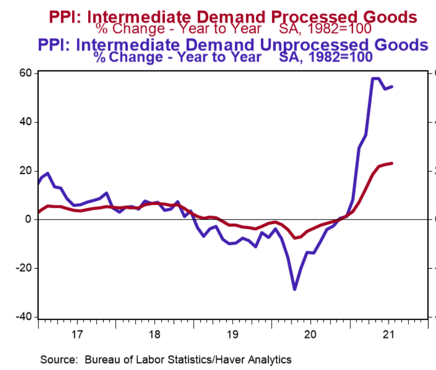
- The Producer Price Index (PPI) rose 1.0% in July, well above the consensus expected +0.6%. Producer prices are up 7.8% versus a year ago.

- Energy prices rose 2.6% in July, while food prices declined 2.1%. Producer prices excluding food and energy increased 1.0% in July and are up 6.2% in the past year.

- In the past year, prices for goods are up 11.9%, while prices for services have risen 5.8%. Private capital equipment prices increased 1.1% in July and are up 5.6% in the past year.

- Prices for intermediate processed goods rose 1.7% in July and are up 22.9% versus a year ago. Prices for intermediate unprocessed goods rose 1.4% in July and are up 55.0% versus a year ago.





Implications: Producer prices continued to surge in July, rising at the second fastest monthly pace (behind just January of this year) in more than a decade. While for years after the financial crisis the question from many was whether the Fed could induce 2% inflation, the question now is whether the Fed will be able to get back down to 2%. The producer price index once again outpaced expectations, rising 1.0% in July (after rising 1.0% in June as well) and pushing the headline reading to 7.8% year-to-year, the highest in more than a decade. And prices are accelerating, up at an 10.3% annualized pace in the past six months. While the Fed has continued the line that this inflation is "transitory," it's getting more difficult to play down rising numbers. Supply-chain issues continue to be a significant pressure on prices, with no end in sight. From the shortage in semiconductors that has slowed production of everything from cars and trucks to household appliances, to difficulties finding labor to fill the record number of job openings in the US, supply simply hasn't kept up with demand. And that demand is being supported by an M2 money supply that stands 32% above pre-COVID levels, leaving both consumer and corporate pockets flush with cash. While supply-chain issues are temporary, the huge increase in the money supply is what will drive inflation over the long term. The Fed seems to anticipate that inflation will subside later this year and into 2022, but we think any waning in inflation later this year will be temporary, as the increase in the money supply continues to gain traction. In terms of the details for July, prices for services led the overall index higher, rising 1.1% (here too, the largest increase for the series in more than a decade). The most notable increase came from final demand trade services, which tracks margins received by wholesalers and retailers. While prices for producer inputs are rising, they have the pricing power to pass on those costs to consumers. This is seen clearly in auto retailing, where a significant supply/demand mismatch paired with consumer cash to spend led margins 17.4% higher in July alone. Goods prices rose 0.6% in July, led by energy (+2.6%) and tobacco products (+2.7%) which were partially offset by a decline in food costs (-2.1%). Stripping out the typically volatile food and energy components shows "core" prices rose 1.0% in July and are up 6.2% in the past year. In spite of inflation running well above the 2% target no matter how you cut it, we don't expect the Fed to signal any change in plans to keep short-term rates near zero for the foreseeable future. The Fed wants inflation to trend above the 2% target for a prolonged period, while the labor market – the other side of the Fed's dual mandate – has to heal considerably further to get the Fed to seriously consider a move higher. In employment news this morning, initial jobless claims fell 12,000 last week to 375,000. Meanwhile continuing claims declined 114,000 to a new recovery low of 2.866 million. Look for a temporary bump up for initial claims next week due to some automaker shutdowns.

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Jul-21	Jun-21	May-21	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**1.0%**	1.0%	0.8%	11.8%	10.3%	7.8%
Goods	**0.6%**	1.2%	1.5%	14.1%	15.0%	11.9%
- Ex Food & Energy	**1.0%**	1.0%	1.1%	12.5%	10.9%	7.5%
Services	**1.1%**	0.8%	0.6%	10.4%	8.0%	5.8%
Private Capital Equipment	**1.1%**	1.4%	0.9%	14.4%	10.5%	5.6%
Intermediate Demand						
Processed Goods	**1.7%**	1.9%	2.8%	28.7%	32.7%	22.9%
- Ex Food & Energy	**1.6%**	2.3%	2.3%	27.7%	31.0%	20.6%
Unprocessed Goods	**1.4%**	2.6%	8.4%	61.3%	49.0%	55.0%
- Ex Food & Energy	**0.0%**	0.9%	9.3%	47.9%	29.6%	44.9%
Services	**1.0%**	1.1%	0.8%	12.1%	9.3%	9.2%

Source: Bureau of Labor Statistics