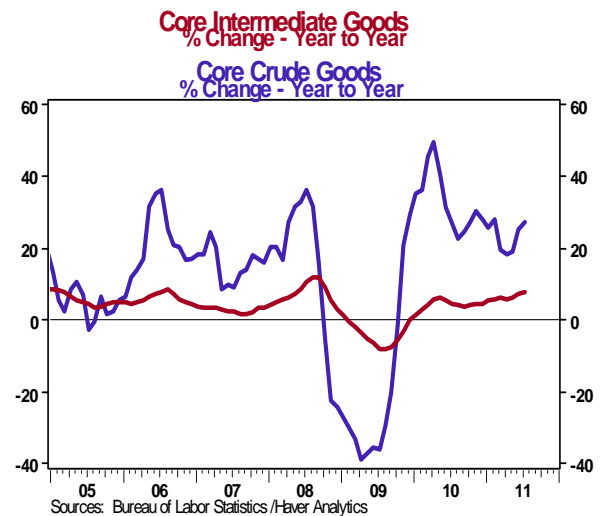
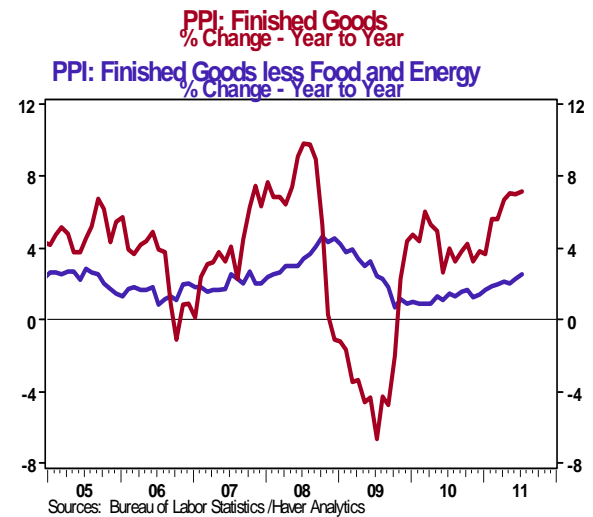


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## July PPI

- The Producer Price Index (PPI) rose 0.2% in July, a larger increase than the consensus expected (0.1%). Producer prices are up 7.2% versus a year ago.
- The increase in PPI in July was largely due to food prices which rose 0.6%. Energy prices fell 0.6%. The “core” PPI, which excludes food and energy, increased 0.4%, a worrisome, and large, jump.
- Consumer goods prices gained 0.1% in July and are up 9.1% versus last year. Capital equipment prices were up 0.4% in July and are up 1.8% in the past year.
- Core intermediate goods prices increased 0.2% in July and are up 7.8% versus a year ago. Core crude prices rose 0.7% in July and are up 27.0% in the past twelve months.

**Implications:** The Federal Reserve is in a bind. The overall producer price index rose a moderate 0.2% in July (7.2% year-over-year), but the “core” PPI, which excludes food and energy, increased 0.4% (2.5% YOY). At 2.5%, the 12-month increase in “core” producer prices may seem small to many, but these prices are up at a 3.9% annual rate in the past three months – a worrisome increase. Given that the Fed has used low core price inflation to justify QE2 and 0% interest rates, the acceleration in these prices during recent months creates a serious dilemma. At the least, it would seem to make a third round of quantitative easing very, very difficult, if not impossible, to justify. This is especially true because further up the production pipeline, inflation is even worse. “Core” intermediate prices – components and parts in the production pipeline – rose 0.2% in July and are up 7.8% versus a year ago. “Core” crude prices – the raw materials of production – are up 27% in the past year. As a result, it is hard to see producer or consumer prices moderating anytime soon. Inflation is a clear and present danger and the Fed is behind the curve.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Jul-11</b>	<b>Jun-11</b>	<b>May-11</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Finished Goods</b>	<b>0.2%</b>	-0.4%	0.2%	0.2%	6.5%	7.2%
<i>Ex Food and Energy</i>	<b>0.4%</b>	0.3%	0.2%	3.9%	3.6%	2.5%
<b>Food</b>	<b>0.6%</b>	0.6%	-1.4%	-1.0%	7.5%	7.1%
<b>Energy</b>	<b>-0.6%</b>	-2.8%	1.5%	-7.7%	13.3%	20.4%
<b>Consumer Goods</b>	<b>0.1%</b>	-0.6%	0.2%	-1.0%	7.5%	9.1%
<b>Capital Equipment</b>	<b>0.4%</b>	0.3%	0.2%	3.6%	3.3%	1.8%
<b>Intermediate Goods</b>	<b>0.2%</b>	0.0%	0.9%	5.1%	11.9%	11.8%
<i>Ex Food &amp; Energy</i>	<b>0.2%</b>	0.3%	0.9%	5.8%	8.5%	7.8%
<b>Energy</b>	<b>0.4%</b>	-0.8%	1.4%	4.2%	22.0%	24.6%
<b>Crude Goods</b>	<b>-1.2%</b>	-0.6%	-4.1%	-21.3%	0.0%	22.2%
<i>Ex Food &amp; Energy</i>	<b>0.7%</b>	1.1%	-0.9%	3.4%	7.3%	27.0%
<b>Energy</b>	<b>-2.6%</b>	-4.1%	-5.2%	-38.6%	-16.1%	15.6%

Source: Bureau of Labor Statistics