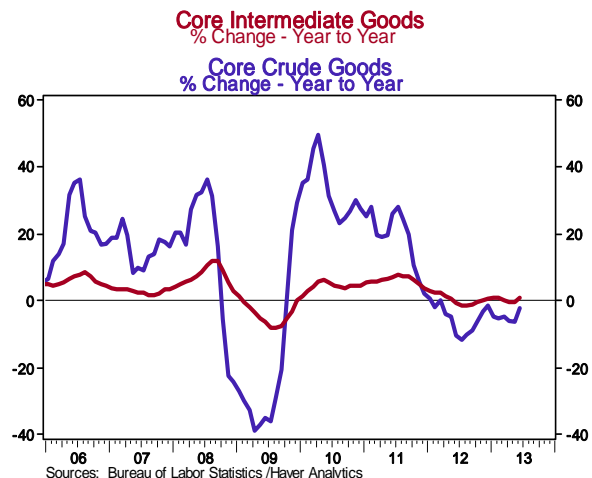
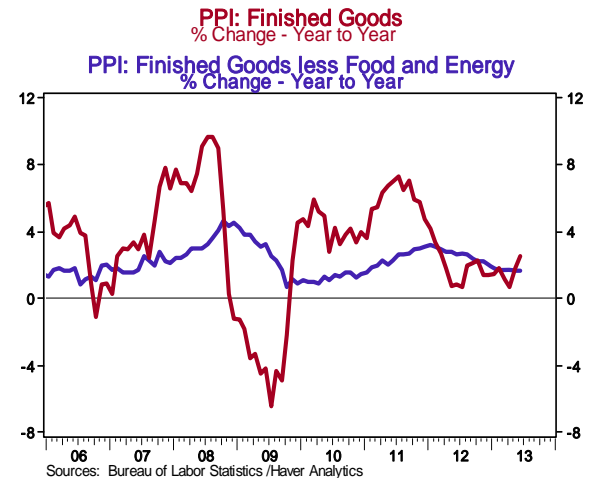


## June PPI

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- The Producer Price Index (PPI) rose 0.8% in June, coming in higher than the consensus expected 0.5%. Producer prices are up 2.5% versus a year ago.
- The increase in the overall PPI was mostly due to energy prices, which rose 2.9%. Food prices increased 0.2%, the same as the “core” PPI, which excludes food and energy.
- Consumer goods prices were up 1.1% in June, while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 3.0% while capital equipment prices are up 0.9%.
- Core intermediate goods prices were up 0.1% in June and are up 0.9% versus a year ago. Core crude prices rose 0.1% in June, but are down 2.2% versus a year ago.

**Implications:** Producer prices spiked 0.8% higher in June on top of a large gain in May. Most of the gains in the past two months have been due to energy. It remains to be seen whether this is the start of the persistently higher inflation trend that we think is inevitable given the loose stance of monetary policy. Overall producer prices are up 2.5% in the past year while “core” prices, which exclude food and energy are up 1.7%. Some analysts may suggest that with the “core” PPI only up 1.7% from last year that the Federal Reserve has room to continue quantitative easing at a pace of \$85 billion per month. We think this is a mistake, and, given the minutes from the most recent Fed meeting, it seems like more members of the FOMC are starting to think the same thing. Monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory in nature; adding even more excess reserves to the banking system is not going to boost economic growth. In other recent inflation news, trade prices were subdued in June, with import prices down 0.2% for the month and up only 0.2% from a year ago. Import prices excluding petroleum were down 0.3% in June and down 0.5% from a year ago. Export prices slipped 0.1% in June, but are up 0.8% from a year ago. The small climb in export prices since last year is all due to food; ex-agriculture export prices are down 0.3% from a year ago. For the labor market, new claims for unemployment insurance were up 16,000 last week to 360,000. Continuing claims were up 24,000 to 2.98 million. However, there is nothing unusual about a temporary increase in claims around July 4 and we expect a decline next week. Plugging these data into our employment models generates a very early estimate of a 163,000 gain in nonfarm payrolls in July. More plow horse.



| <b>Producer Price Index</b><br><i>All Data Seasonally Adjusted</i> | <b>Jun-13</b> | <b>May-13</b> | <b>Apr-13</b> | <b>3-mo % Ch.</b><br><i>annualized</i> | <b>6-mo % Ch.</b><br><i>annualized</i> | <b>Yr to Yr</b><br><i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| <b>Finished Goods</b>  | <b>0.8%</b>   | 0.5%          | -0.7%         | 2.3%                                   | 1.5%                                   | 2.5%                               |
| <b>Ex Food and Energy</b>  | <b>0.2%</b>   | 0.1%          | 0.1%          | 1.3%                                   | 1.6%                                   | 1.7%                               |
| <b>Food</b>  | <b>0.2%</b>   | 0.6%          | -0.8%         | 0.0%                                   | 1.7%                                   | 2.9%                               |
| <b>Energy</b>  | <b>2.9%</b>   | 1.3%          | -2.5%         | 6.5%                                   | 1.0%                                   | 4.2%                               |
| <b>Consumer Goods</b>  | <b>1.1%</b>   | 0.6%          | -1.0%         | 2.7%                                   | 1.7%                                   | 3.0%                               |
| <b>Capital Equipment</b>   | <b>0.1%</b>   | 0.1%          | 0.1%          | 1.0%                                   | 1.0%                                   | 0.9%                               |
| <b>Intermediate Goods</b>  | <b>0.5%</b>   | 0.0%          | -0.6%         | -0.8%                                  | 0.3%                                   | 1.1%                               |
| <b>Ex Food &amp; Energy</b>  | <b>0.1%</b>   | -0.4%         | -0.2%         | -2.0%                                  | 1.6%                                   | 0.9%                               |
| <b>Energy</b>  | <b>2.0%</b>   | 0.5%          | -2.1%         | 1.5%                                   | -3.3%                                  | 0.4%                               |
| <b>Crude Goods</b>   | <b>0.0%</b>   | 2.2%          | -0.4%         | 7.2%                                   | -0.2%                                  | 11.0%                              |
| <b>Ex Food &amp; Energy</b>  | <b>0.1%</b>   | -2.3%         | -2.8%         | -18.3%                                 | -11.3%                                 | -2.2%                              |
| <b>Energy</b>  | <b>0.3%</b>   | 5.0%          | 3.7%          | 42.0%                                  | 9.9%                                   | 21.4%                              |

Source: Bureau of Labor Statistics