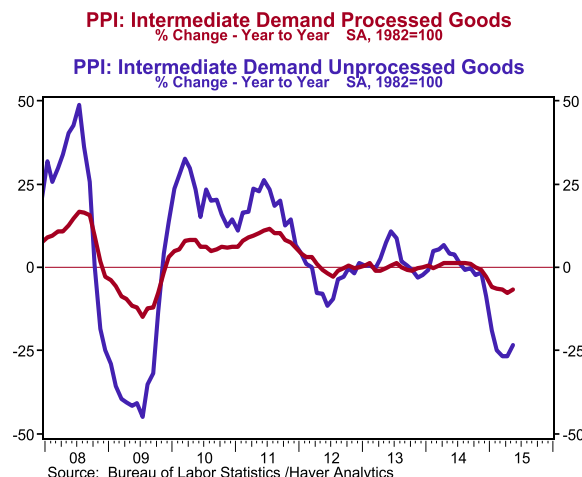
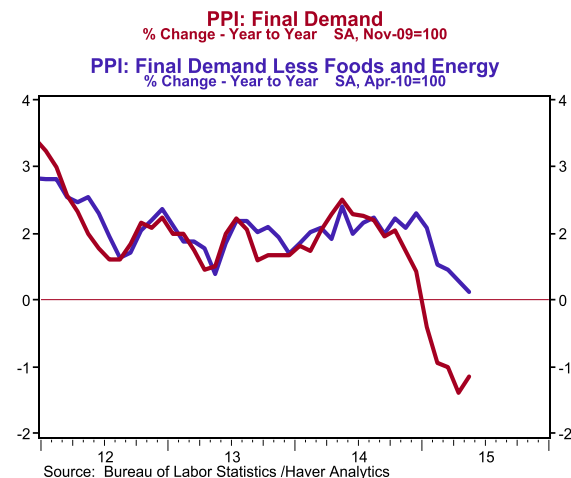


May PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Producer Price Index (PPI) rose 0.5% in May, coming in above the consensus expected gain of 0.4%. Producer prices are down 1.0% versus a year ago.
- Energy prices rose 5.9% in May while food prices increased 0.8%. Producer prices excluding food and energy were up 0.1%.
- In the past year, prices for services are up 0.6%, while prices for goods are down 4.1%. Private capital equipment prices declined 0.1% in May and were unchanged in the past year.
- Prices for intermediate processed goods increased 1.0% in May, and are down 6.8% versus a year ago. Prices for intermediate unprocessed goods increased 3.3% in May, but are down 23.4% versus a year ago.

Implications: If the Fed was looking for reassurance that “transitory factors” holding down inflation may be starting to give way, they got it just in time for next week’s meeting. Energy prices, which have been the key driver pushing prices lower since mid-2014, were up 5.9% in May and are up 18.7% at an annual rate over the past three months. As a result, overall prices have been moving higher as well. The 0.5% increase in overall producer prices in May was the largest gain for any month since 2012. Since March, producer prices are up at a 1.5% annual rate. Prices outside the volatile food and energy sectors have been relatively quiet over the past year. Service prices have increased 0.6% while “core” goods, which exclude food and energy, are up 0.5%. However, given the extended period of loose monetary policy and the recent (partial) rebound in oil prices, we expect inflation to pick up in the year ahead and to do so more quickly than most investors expect. The Fed can see this too, and it is their expectations for future inflation, more than the rearview mirror, that guide their decisions. If they believe inflation is starting to turn higher, a June rate hike could certainly be on the table. Other factors may play a role in their decision as well. For example, May saw price declines in trade, transportation and warehousing, which may still be hangover from the West Coast port strikes. These effects won’t last, though, and when they fade inflation will move higher. In turn, this likely means higher bond yields and a more aggressive Fed than is right now priced into market expectations.



| Producer Price Index <i>All Data Seasonally Adjusted</i> | May-15 | Apr-15 | Mar-15 | 3-mo % Ch. <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| Final Demand | 0.5% | -0.4% | 0.2% | 1.5% | -2.1% | -1.0% |
| Goods | 1.3% | -0.7% | 0.3% | 3.3% | -5.4% | -4.1% |
| - Ex Food & Energy | 0.2% | -0.1% | 0.2% | 1.1% | 0.4% | 0.5% |
| Services | 0.0% | -0.1% | 0.1% | 0.0% | -0.5% | 0.6% |
| Private Capital Equipment | -0.1% | -0.3% | 0.0% | -1.5% | -0.7% | 0.0% |
| Intermediate Demand | | | | | | |
| Processed Goods | 1.0% | -1.1% | -0.1% | -1.1% | -9.5% | -6.8% |
| - Ex Food & Energy | -0.2% | -0.5% | -0.2% | -3.3% | -5.5% | -3.0% |
| Unprocessed Goods | 3.3% | 0.9% | -1.7% | 10.4% | -27.6% | -23.4% |
| - Ex Food & Energy | -0.1% | 0.0% | -2.3% | -9.2% | -16.3% | -14.1% |
| Services | -0.5% | 0.5% | 0.2% | 1.1% | 0.5% | 1.3% |

Source: Bureau of Labor Statistics