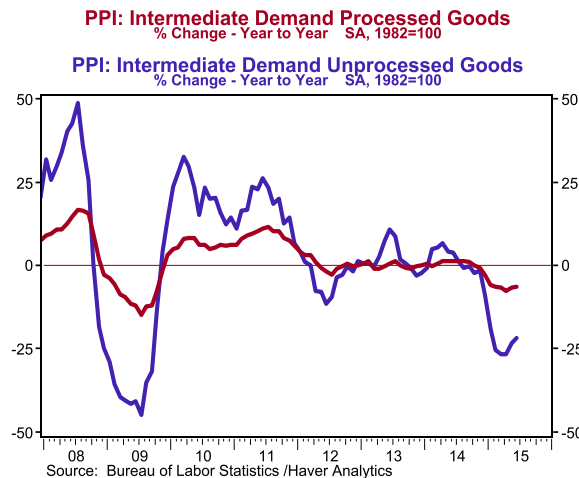
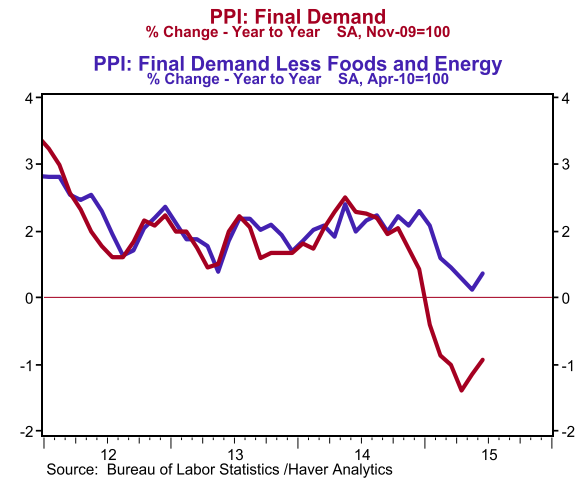


June PPI

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- The Producer Price Index (PPI) rose 0.4% in June, coming in above the consensus expected gain of 0.2%. Still, producer prices are down 0.7% versus a year ago.
- Energy prices rose 2.4% in June while food prices increased 0.6%. Producer prices excluding food and energy were up 0.3%.
- In the past year, prices for services are up 0.9%, while prices for goods are down 3.7%. Private capital equipment prices increased 0.2% in June and are up 0.1% in the past year.
- Prices for intermediate processed goods rose 0.7% in June, but are down 6.3% versus a year ago. Prices for intermediate unprocessed goods increased 1.2% in June, but are down 21.7% versus a year ago.

Implications: Producer prices rose faster than the consensus expected for a second straight month and have now risen at the fastest two-month pace since 2011. Energy prices, which had been the key driver pushing prices lower since mid-2014, were up 2.4% in June and are up 23% at an annual rate over the past three months. Meanwhile, an outbreak of the bird flu has pushed food prices higher at the quickest two-month pace in more than a year. As a result, overall prices have been moving higher as well. The 0.4% increase in overall producer prices in June was the second largest gain for any month since 2012, behind only last month's 0.5% rise. In the second quarter, producer prices were up at a 2.2% annual rate, above the Fed's long-term 2% inflation target. Prices outside the volatile food and energy sectors have been relatively quiet over the past year. Service prices have increased 0.9% while "core" goods, which exclude food and energy, are up 0.7%. 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, which guide their decisions. If they believe inflation is starting to turn higher, a September rate hike looks likely. Further down the chain, prices are rising as well. Prices for intermediate processed goods are down 6.3% in the past year, but are up 2.3% over the past three months. Prices for the more volatile intermediate unprocessed goods show a similar picture, down 21.7% in the past year, but up at a 23.8% annual rate in the past three months. Expect these figures to follow the overall index higher in the months ahead.



| Producer Price Index <i>All Data Seasonally Adjusted</i> | Jun-15 | May-15 | Apr-15 | 3-mo % Ch. <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| Final Demand | 0.4% | 0.5% | -0.4% | 2.2% | -0.9% | -0.7% |
| Goods | 0.7% | 1.3% | -0.7% | 5.2% | -1.6% | -3.7% |
| - Ex Food & Energy | 0.4% | 0.2% | -0.1% | 1.8% | 1.1% | 0.7% |
| Services | 0.3% | 0.0% | -0.1% | 0.7% | -0.5% | 0.9% |
| Private Capital Equipment | 0.2% | -0.1% | -0.3% | -0.7% | 0.0% | 0.1% |
| Intermediate Demand | | | | | | |
| Processed Goods | 0.7% | 1.0% | -1.1% | 2.3% | -4.9% | -6.3% |
| - Ex Food & Energy | 0.2% | -0.2% | -0.5% | -1.7% | -3.9% | -2.8% |
| Unprocessed Goods | 1.2% | 3.3% | 0.9% | 23.8% | -17.5% | -21.7% |
| - Ex Food & Energy | 0.3% | -0.1% | 0.0% | 1.1% | -14.8% | -12.3% |
| Services | 0.4% | -0.5% | 0.5% | 1.8% | 0.9% | 1.6% |

Source: Bureau of Labor Statistics