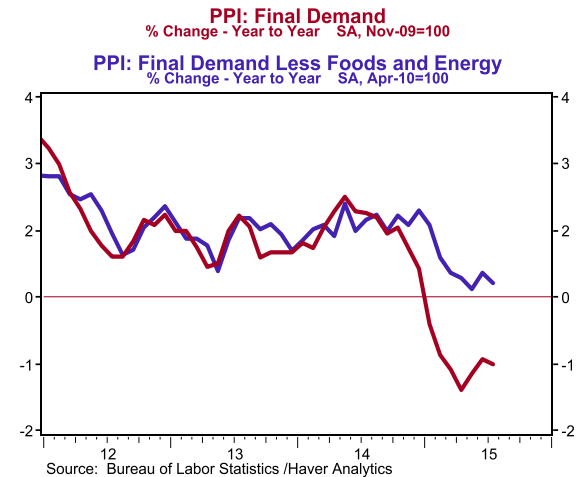


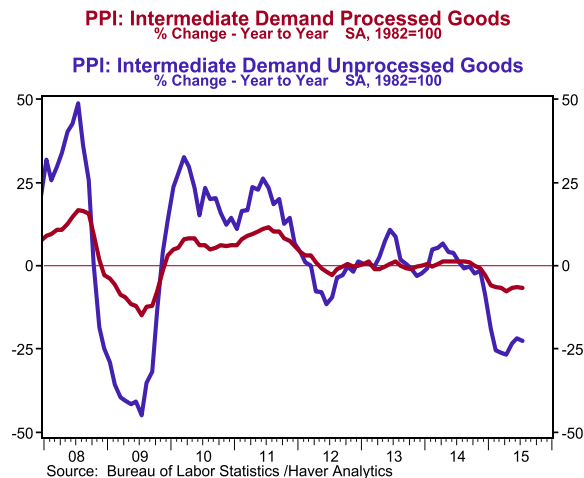
July PPI

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- The Producer Price Index (PPI) rose 0.2% in July, coming in above the consensus expected gain of 0.1%. Still, producer prices are down 0.8% versus a year ago.
- The rise in producer prices was led by prices for final demand services, up 0.4% in July. Energy prices declined 0.6% in July while food prices declined 0.1%. Producer prices excluding food and energy were up 0.3%.
- In the past year, prices for services are up 0.6%, while prices for goods are down 3.7%. Private capital equipment prices increased 0.4% in July and are up 0.3% in the past year.
- Prices for intermediate processed goods declined 0.2% in July and are down 6.5% versus a year ago. Prices for intermediate unprocessed goods declined 2.9% in July, and are down 22.6% versus a year ago.



Implications: Producer prices rose faster than the consensus expected for a third straight month and have now risen at the fastest three-month pace since early 2011. The service sector led the way in July, rising 0.4% as prices for guestroom rentals, up 9.9%, accounted for nearly half the increase. Prices for goods took a breather in July, down 0.1%, but have continued to show a clear acceleration of late. While goods prices remain down 3.7% from a year ago, they are up at a 2% rate over the past six months, and up a faster 8% rate over the past three months. Energy prices, which have been the key driver behind goods prices since mid-2014, dipped 0.6% in July, but are up 35% at an annual rate over the past three months. Meanwhile, the outbreak of the bird flu that has pushed food prices higher also showed some relief in July, highlighted by a 24.8% decline in the price of eggs. While producer prices are down from a year ago, the 0.2% increase in overall producer prices in July comes on the back of a 0.4% rise in June and a 0.5% jump in May. Combined, these represent the fastest three-month rise in prices in more than four years, and show a trend in inflation above the Fed’s 2% target. And while the Fed is more focused on its own expectations for future inflation, the recent trend gives them ample basis to begin raising rates in September. Further down the chain, prices remain volatile. Prices for intermediate processed goods are down 6.5% in the past year, but are up at a 6.3% annual rate over the past three months. Prices for intermediate unprocessed goods show a similar picture, down 22.6% in the past year, but up at a 5.9% rate in the past three months. Inflation is certainly not a major problem right now, but given the prolonged period of monetary looseness, expect inflation to move gradually higher over the next few years.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jul-15	Jun-15	May-15	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.2%	0.4%	0.5%	4.5%	0.9%	-0.8%
Goods	-0.1%	0.7%	1.3%	8.0%	2.0%	-3.7%
- Ex Food & Energy	0.0%	0.4%	0.2%	2.2%	0.9%	0.5%
Services	0.4%	0.3%	0.0%	2.6%	0.4%	0.6%
Private Capital Equipment	0.4%	0.2%	-0.1%	1.9%	-0.6%	0.3%
Intermediate Demand						
Processed Goods	-0.2%	0.7%	1.0%	6.3%	-0.4%	-6.5%
- Ex Food & Energy	0.1%	0.2%	-0.2%	0.4%	-1.8%	-3.1%
Unprocessed Goods	-2.9%	1.2%	3.3%	5.9%	-5.5%	-22.6%
- Ex Food & Energy	-0.5%	0.3%	-0.1%	-0.9%	-13.9%	-13.0%
Services	0.2%	0.4%	-0.5%	0.4%	1.1%	1.1%

Source: Bureau of Labor Statistics