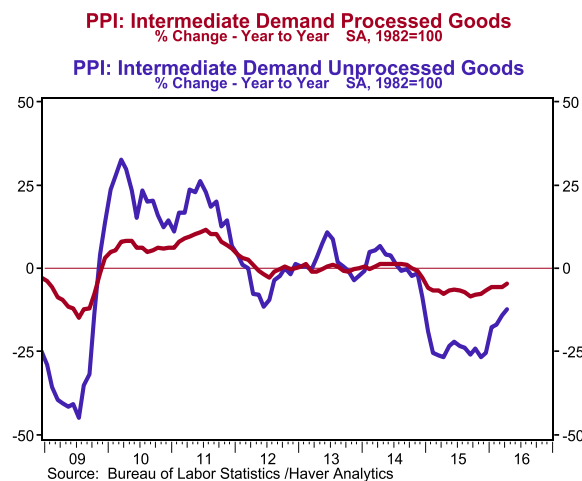
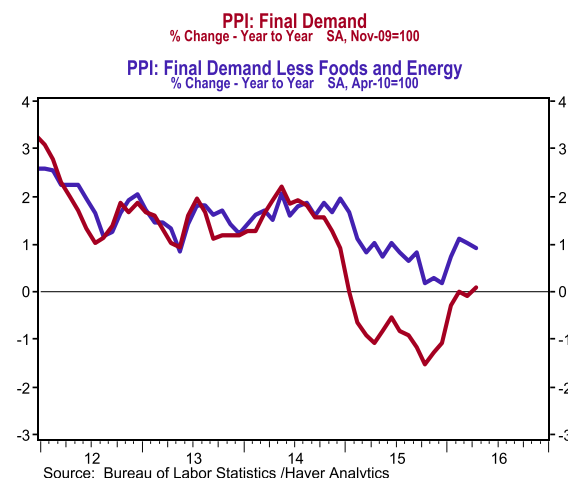


April PPI

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

- The Producer Price Index (PPI) increased 0.2% in April, coming in below the consensus expected rise of 0.3%. Producer prices are up 0.1% versus a year ago.
- The rise in producer prices in April was led by final demand goods, up 0.2%. Energy prices rose 0.2% in April while food prices declined 0.3%. Producer prices excluding food and energy rose 0.1%.
- In the past year, prices for services are up 1.1%, while prices for goods are down 1.9%. Private capital equipment prices were unchanged in April but are up 1.2% in the past year.
- Prices for intermediate processed goods rose 0.3% in April but are down 4.6% versus a year ago. Prices for intermediate unprocessed goods rose 2.6% in April but are down 12.2% versus a year ago.

Implications: Following two months of declines, the producer price index rose in April as both goods and services prices moved higher. Carbon steel scrap jumped 22.1%, while energy prices rose 0.2% on the back of rising gasoline, leading to a 0.2% increase in goods prices. And given the trend in oil prices through the first half of May, it looks like energy will push goods prices higher in next month's report as well. Service prices rose 0.1% in April despite declining prices for transportation, warehousing, and trade. While the Fed pays attention to overall prices, they place greater weight on "core" prices, which exclude the volatile food and energy components. The "core" measure for producer prices showed a 0.1% rise in April, and these prices are now up 0.9% in the past year. So while inflation remains modest, the U.S. is not experiencing deflation, and rising energy prices may push inflation up at a faster pace than many are expecting. As we noted in this week's [Monday Morning Outlook](#), employment data continues to support a Fed rate hike, while the lack of headline inflation should not keep the Fed from raising rates at their June meeting. In other recent news, import prices rose 0.3% in April but remain down 5.7% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 2.2% from a year ago even excluding petroleum. Export prices rose 0.5% in April but remain down 5.0% from a year ago. Given the recent acceleration in the M2 measure of the money supply, look for all of these measures of inflation to move upward in the next year.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Apr-16	Mar-16	Feb-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.2%	-0.1%	-0.2%	-0.4%	0.2%	0.1%
Goods	0.2%	0.2%	-0.6%	-0.7%	-2.9%	-1.9%
- Ex Food & Energy	0.3%	0.1%	0.1%	1.8%	1.1%	0.5%
Services	0.1%	-0.2%	0.0%	-0.4%	1.8%	1.1%
Private Capital Equipment	0.0%	-0.5%	0.4%	-0.4%	2.4%	1.2%
Intermediate Demand						
Processed Goods	0.3%	-0.2%	-0.7%	-2.4%	-6.2%	-4.6%
- Ex Food & Energy	0.3%	-0.1%	-0.4%	-0.9%	-2.3%	-2.5%
Unprocessed Goods	2.6%	2.5%	-2.1%	12.6%	-10.8%	-12.2%
- Ex Food & Energy	3.5%	2.1%	0.3%	26.1%	1.9%	-6.6%
Services	0.1%	-0.3%	0.3%	0.4%	3.1%	1.0%

Source: Bureau of Labor Statistics

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.