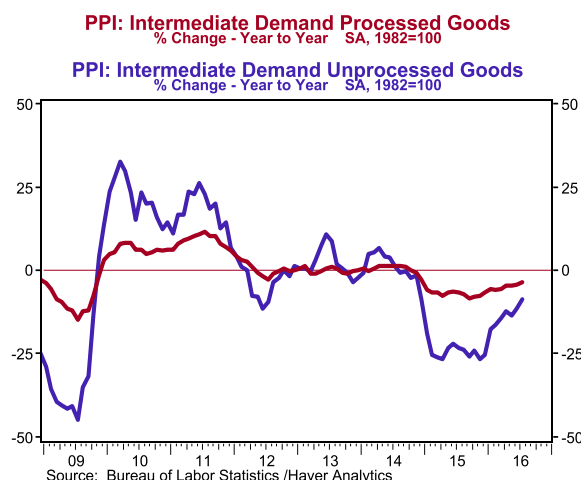
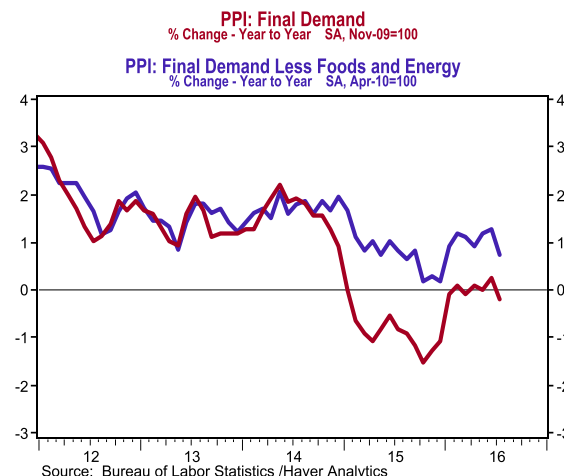


# July PPI

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- The Producer Price Index (PPI) unexpectedly declined 0.4% in July, coming in well below the consensus expected rise of 0.1%. Producer prices are down 0.2% versus a year ago.
- The decline in producer prices in July was broad-based, with final demand services falling 0.3% and final demand goods declining 0.4%. Energy prices fell 1.0% while food prices declined 1.1%. Producer prices excluding food and energy declined 0.3%.
- In the past year, prices for goods are down 2.2%, while prices for services are up 0.9%. Private capital equipment prices fell 0.6% in July but are up 1.3% in the past year.
- Prices for intermediate processed goods rose 0.2% in July but are down 3.6% versus a year ago. Prices for intermediate unprocessed goods declined 0.4% in July and are down 8.8% versus a year ago.

**Implications:** Coming off the fastest three-month rise in nearly four years, producer prices pulled back in July. But while the declines in July were broad based, and we won't be surprised if the pouting pundits of pessimism tout today's report as a reason for the Fed to hold off on raising rates in September, data are volatile and a single month's report should not be the deciding factor for monetary policy. For example, recent reports that oil inventories are starting to decline could boost oil prices in the months ahead. Prices for services led the index lower in July, as retailers and wholesalers saw falling margins. Prices for goods also fell in July, with both food and energy costs declining. But even excluding the volatile food and energy components, "core" prices fell 0.3% in July and are up a modest 0.7% in the past year. The "core" measure is where the Fed places greater weight when making the decisions on monetary policy. In spite of the price drop in July, the headline measure of producer price inflation is showing a pickup in pace, up at a 2.2% annualized rate in the past three months compared to a 0.5% annual rate in the past six months and a 0.2% decline from a year ago. So while inflation remains modest, the U.S. is certainly not experiencing deflation. Rather, rising energy prices may push inflation up at a faster pace than many are expecting. In other recent inflation news, import prices rose 0.1% in July but remain down 3.7% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 1.3% from a year ago even excluding petroleum. Export prices rose 0.2% in July but remain down 3% from a year ago.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Jul-16</b>	<b>Jun-16</b>	<b>May-16</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Final Demand</b>						
<b>Goods</b>	<b>-0.4%</b>	0.5%	0.4%	2.2%	0.5%	-0.2%
- Ex Food & Energy	<b>0.0%</b>	0.0%	0.3%	1.1%	1.5%	0.4%
<b>Services</b>	<b>-0.3%</b>	0.4%	0.2%	1.4%	0.0%	0.9%
<b>Private Capital Equipment</b>	<b>-0.6%</b>	0.1%	0.8%	1.1%	0.2%	1.3%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.2%</b>	0.9%	0.8%	8.3%	2.7%	-3.6%
- Ex Food & Energy	<b>0.1%</b>	0.2%	0.5%	3.1%	1.2%	-1.7%
<b>Unprocessed Goods</b>	<b>-0.4%</b>	2.8%	1.3%	15.6%	13.2%	-8.8%
- Ex Food & Energy	<b>-0.8%</b>	-0.3%	4.2%	12.4%	19.8%	-2.6%
<b>Services</b>	<b>0.3%</b>	0.8%	-0.2%	3.6%	1.8%	1.6%

Source: Bureau of Labor Statistics