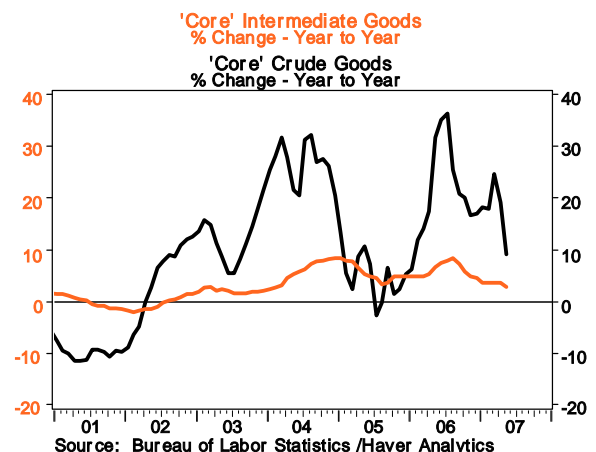
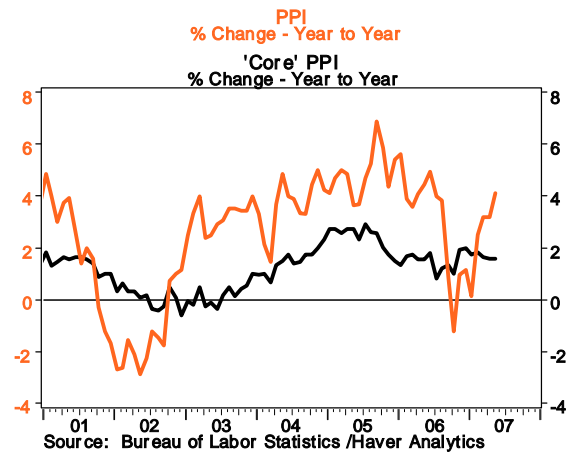


MAY PPI

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- The Producer Price Index (PPI) increased 0.9% in May versus a consensus expected gain of 0.6%. The PPI is up 3.9% in the past twelve months (seasonally adjusted) and has climbed at an annual rate of 11.0% in the past three months.
- Most of the PPI increase in May was due to energy prices, which rose 4.1%. The core PPI, which excludes food and energy prices, was up 0.2% matching consensus expectations. The core PPI is up 1.6% in the past year and up at an annual rate of 0.7% in the past three months.
- Consumer goods prices increased 1.2% in May and are up at an annual rate of 14.8% in the past three months. Capital equipment prices rose 0.1% and are up 1.7% in the past year.
- Core intermediate goods prices increased 0.4% in May and are up 2.9% versus last year. Core crude prices increased 0.1%, are up at a 37.1% annual rate the past three months, and are up 9.2% versus a year ago.

Implications: Today's inflation data was not benign. The overall PPI is up at a 12.4% annual rate in the past four months, the largest gain for any four-month period since 1990. Although core inflation for finished goods is relatively low, the concept of core inflation is not useful when the combination of food and energy prices tend to move in one direction. At some point, policymakers have to drop their focus on core prices and look at the overall number. Because of high overall inflation, we still believe the next rate move by the Fed is likely to be up, not down. In other news today, new claims for unemployment insurance were unchanged from last week's low 311,000 level and continuing claims dropped 43,000, signaling continued strength in the labor market.



Producer Price Index <i>All Data Seasonally Adjusted</i>	May-07	Apr-07	Mar-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.9%	0.7%	1.0%	11.0%	8.5%	3.9%
<i>Ex Food and Energy</i>	0.2%	0.0%	0.0%	0.7%	1.8%	1.6%
Food	-0.2%	0.4%	1.4%	6.5%	12.1%	8.5%
Energy	4.1%	3.4%	3.6%	54.4%	26.9%	6.6%
Consumer Goods	1.2%	0.9%	1.4%	14.8%	10.9%	4.8%
Capital Equipment	0.1%	0.1%	-0.1%	0.3%	1.4%	1.7%
Intermediate Goods	1.1%	0.9%	1.0%	12.9%	8.9%	3.5%
<i>Ex Food & Energy</i>	0.4%	0.8%	0.2%	5.9%	3.8%	2.9%
Energy	4.2%	1.3%	4.1%	45.9%	28.6%	4.3%
Crude Goods	2.0%	-1.5%	3.2%	15.9%	23.9%	11.5%
<i>Ex Food & Energy</i>	0.1%	0.4%	7.7%	37.1%	31.4%	9.2%
Energy	4.3%	-4.9%	1.7%	3.9%	12.3%	0.3%

Source: Bureau of Labor Statistics