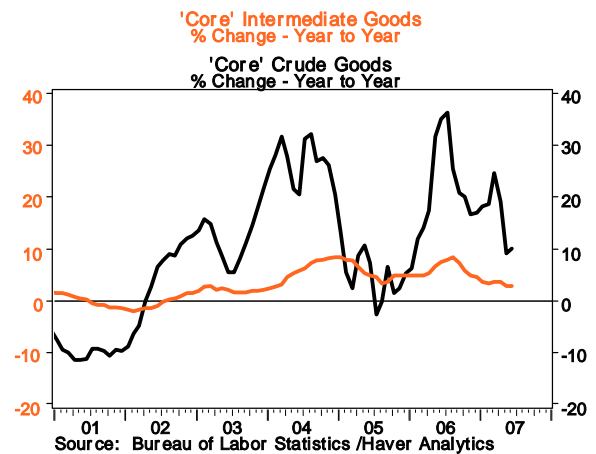
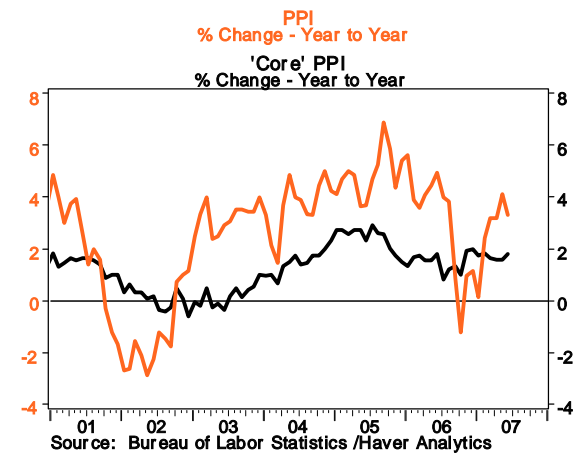


JUNE PPI

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- The Producer Price Index (PPI) declined 0.2% in June versus a consensus expected gain of 0.2%. The PPI is up 3.2% in the past twelve months (seasonally adjusted) and has climbed at an annual rate of 5.7% in the past three months.
- Most of the PPI's drop in June was due to energy prices, which fell 1.1%. The core PPI, which excludes food and energy prices, was up 0.3%, exceeding consensus expectations of 0.2%. The core PPI is up 1.8% in the past year and up at an annual rate of 2.0% in the past three months.
- Consumer goods prices declined 0.4% in June but are up at an annual rate of 7.0% in the past three months. Capital equipment prices rose 0.3% and are up 1.8% in the past year.
- Core intermediate goods prices increased 0.4% in June and are up 2.7% versus last year. Core crude prices fell 0.2%, but are up 10.1% versus a year ago.

Implications: Although the headline number in today's inflation report was a decline, we still believe the underlying trend in inflation is up. Producer prices are volatile from month to month. This was the first decline in producer prices since January but in the four intervening months (February through May), producer prices increased at a 12.4% annual rate. Even including the declines in January and June, the PPI is up at a 6.4% annual rate in the first half of 2007. Note also that capital equipment prices have risen at a 1.8% annual rate for the past four years, versus no change for the 48 months ending in 1999. This has implications for consumer prices down the road and is not an environment in which the Federal Reserve will seriously consider cutting rates.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jun-07	May-07	Apr-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods						
<i>Ex Food and Energy</i>	-0.2%	0.9%	0.7%	5.7%	6.4%	3.2%
Food	0.3%	0.2%	0.0%	2.0%	2.3%	1.8%
Energy	-0.8%	-0.2%	0.4%	-2.6%	7.8%	6.3%
Energy	-1.1%	4.1%	3.4%	28.6%	18.4%	4.3%
Consumer Goods						
Capital Equipment	-0.4%	1.2%	0.9%	7.0%	7.8%	3.7%
Capital Equipment	0.3%	0.1%	0.1%	1.6%	1.9%	1.8%
Intermediate Goods						
Ex Food & Energy	0.5%	1.1%	0.9%	10.4%	8.0%	3.4%
Ex Food & Energy	0.4%	0.4%	0.8%	6.6%	4.5%	2.7%
Energy	0.3%	4.2%	1.3%	25.5%	19.8%	4.2%
Crude Goods						
Ex Food & Energy	0.3%	2.0%	-1.5%	3.3%	18.6%	14.9%
Ex Food & Energy	-0.2%	0.1%	0.4%	1.1%	26.5%	10.1%
Energy	0.6%	4.3%	-4.9%	-0.8%	3.5%	8.5%

Source: Bureau of Labor Statistics