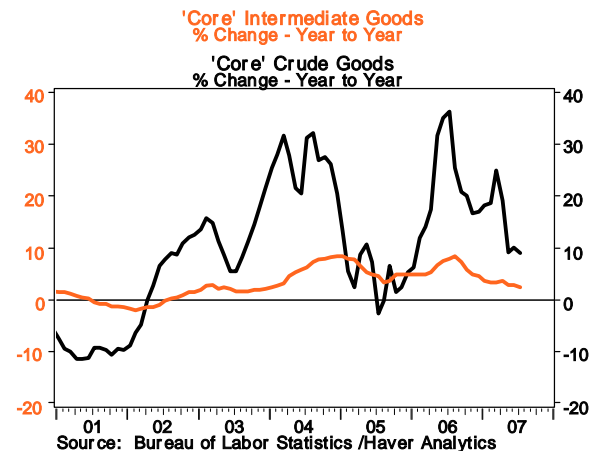
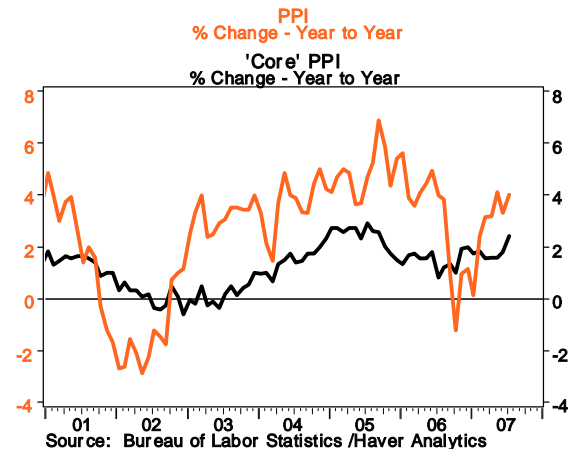


JULY PPI

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- The Producer Price Index (PPI) increased 0.6% in July versus a consensus expected gain of 0.2%. The PPI is up 3.9% in the past twelve months (seasonally adjusted) and has climbed at an annual rate of 5.2% in the past three months.
- Most of the PPI's increase in July was due to energy prices, which rose 2.5%. The core PPI, which excludes food and energy prices, was up 0.1%, slightly below consensus expectations of 0.2%. The core PPI is up 2.4% in the past year (seasonally adjusted) and up at an annual rate of 2.5% in the past three months.
- Consumer goods prices increased 0.7% in July and are up at an annual rate of 6.2% in the past three months. Capital equipment prices rose 0.1% and are up 2.3% in the past year.
- Intermediate goods prices increased 0.6% in July and are up 3.9% versus last year. Crude prices rose 1.2% and are up 13.2% versus a year ago.

Implications: The trends in inflation are up, both short-term and long-term. In the past nine months producer prices have risen at an 8.4% annual rate, the fastest since 1981. During the same period, core producer prices were up at a 3% annual rate, near the highest (3.2%) since 1992. Taking the long-term view, in the past five years, producer prices are up at a 3.9% annual rate, the most since 1980-85, while core producer prices are up at a 1.5% rate, the most since 1991-96. In this economic environment, the Federal Reserve cannot afford to take its eye off inflation.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jul-07	Jun-07	May-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.6%	-0.2%	0.9%	5.2%	8.9%	3.9%
Ex Food and Energy	0.1%	0.3%	0.2%	2.5%	2.1%	2.4%
Food	-0.1%	-0.8%	-0.2%	-4.2%	5.5%	6.2%
Energy	2.5%	-1.1%	4.1%	24.1%	35.7%	6.2%
Consumer Goods	0.7%	-0.4%	1.2%	6.2%	11.2%	4.4%
Capital Equipment	0.1%	0.3%	0.1%	1.6%	1.8%	2.3%
Intermediate Goods	0.6%	0.5%	1.1%	9.3%	10.9%	3.9%
Ex Food & Energy	0.2%	0.4%	0.4%	4.4%	5.0%	2.5%
Energy	2.0%	0.3%	4.2%	28.8%	34.3%	7.4%
Crude Goods	1.2%	0.3%	2.0%	15.1%	36.1%	13.2%
Ex Food & Energy	0.0%	-0.2%	0.1%	-0.1%	22.2%	8.5%
Energy	1.1%	0.6%	4.3%	26.5%	47.6%	5.8%

Source: Bureau of Labor Statistics