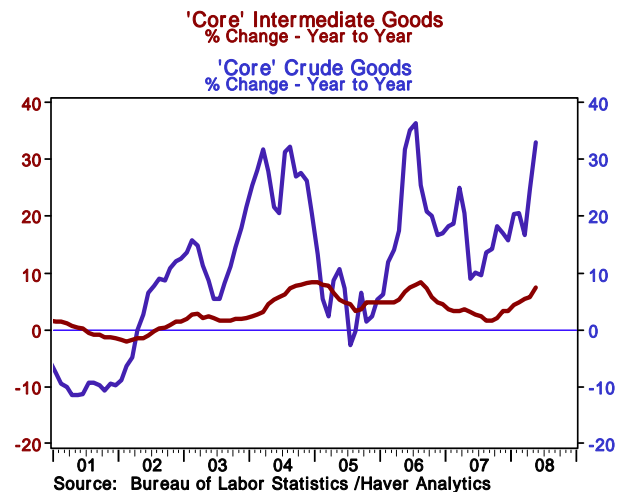
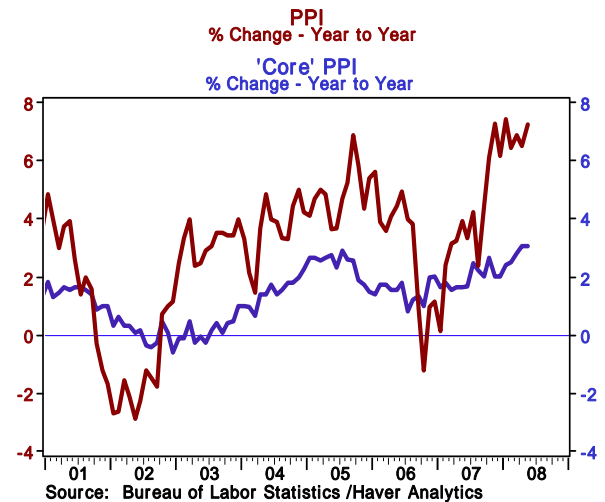


MAY PPI

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- The Producer Price Index (PPI) increased 1.4% in May versus a consensus expected rise of 1.0%. The PPI is up 7.2% in the past twelve months (seasonally adjusted).
- Most of the increase in the PPI was due to energy and food. Energy prices increased 4.9% in May and are up 19.4% in the past year. Food prices increased 0.8% in May and are up 6.6% versus last year. The “core” PPI, which excludes food and energy, was up 0.2% in May and is up 3.0% versus last year, the largest twelve-month gain since 1991.
- Consumer goods prices increased 1.8% in May and are up 8.8% since last year. Capital equipment prices increased 0.1% in May and are up 2.3% versus a year ago.
- Intermediate goods prices rose 2.9% in May and are up at a 27.7% annual rate in the past three months. Crude prices increased 6.7% in May and have risen at a 100.9% annual rate in the past three months.

Implications: After a pause in April, inflation came back with a vengeance in May. Prices for finished goods increased 1.4% are up 7.2% versus last year. With the exception of some months earlier this year, this is the fastest 12-month increase since 1981. Prices for intermediate goods are up 12.5% versus last year, the fastest increase since 1980. While increases in food and energy prices have absorbed most of the Federal Reserve’s loose monetary policy, “core” prices are starting to percolate. Core finished goods prices increased 0.2% in May and are up 3% versus last year, the largest gain since 1991. Core intermediate goods prices are up 7.4% versus last year while core crude prices are up more than 33%. Note that inflation over the past year reflects the stance of monetary policy 18-24 months ago, when the Federal Reserve was not as loose as it is today.



Producer Price Index <i>All Data Seasonally Adjusted</i>	May-08	Apr-08	Mar-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.4%	0.2%	1.1%	11.0%	7.3%	7.2%
Ex Food and Energy	0.2%	0.4%	0.2%	3.7%	4.1%	3.0%
Food	0.8%	0.0%	1.2%	8.3%	9.3%	6.6%
Energy	4.9%	-0.2%	2.9%	34.7%	14.4%	19.4%
Consumer Goods	1.8%	0.1%	1.3%	13.6%	8.7%	8.8%
Capital Equipment	0.1%	0.4%	0.1%	2.7%	3.1%	2.3%
Intermediate Goods	2.9%	0.9%	2.3%	27.7%	17.8%	12.5%
Ex Food & Energy	2.0%	1.2%	1.1%	18.5%	12.0%	7.4%
Energy	6.2%	0.5%	5.9%	63.2%	35.3%	29.2%
Crude Goods	6.7%	3.2%	8.0%	100.9%	67.8%	41.7%
Ex Food & Energy	5.0%	7.9%	3.5%	89.1%	64.7%	33.2%
Energy	13.1%	4.1%	13.4%	217.0%	111.5%	67.0%

Source: Bureau of Labor Statistics

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