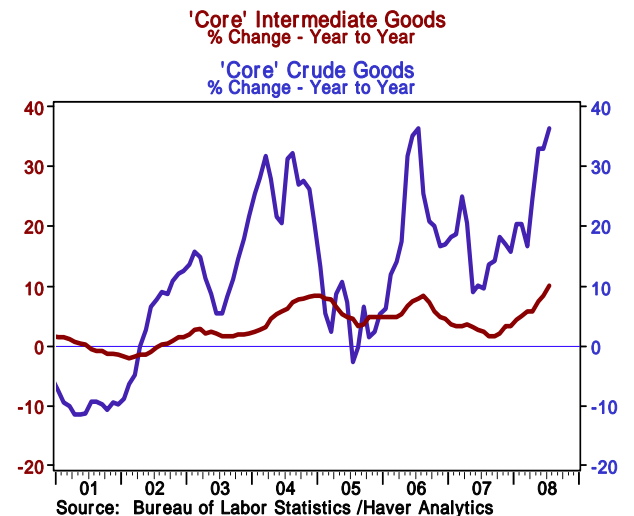
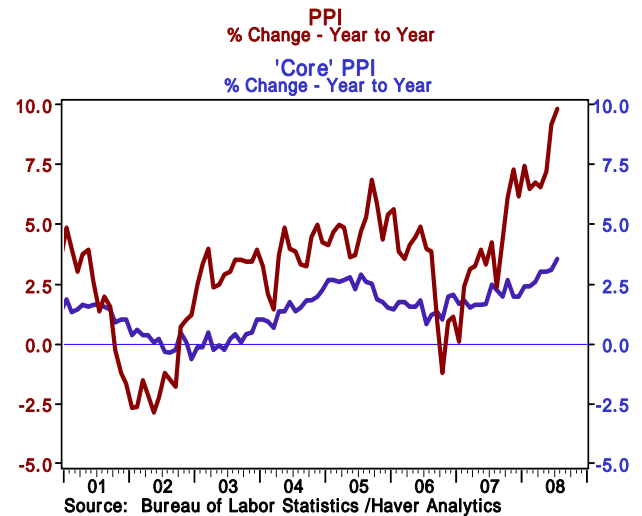


JULY PPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) increased 1.2% in July versus a consensus expected rise of 0.6%. The PPI is up 9.8% in the past twelve months, the largest gain since 1981.
- About half of the monthly increase in the PPI was due to energy, which rose 3.1% in July and is up 28.0% in the past year. The other half of the monthly increase in the PPI was widespread. The “core” PPI, which excludes food and energy, was up 0.7% in July and is up 3.5% versus last year, the most since 1991.
- Consumer goods prices increased 1.2% in July and are up 11.9% since last year, the most since 1980. Capital equipment prices spiked 0.8% in July and are up 3.1% versus a year ago, the most since 1991.
- Intermediate goods prices rose 2.7% in July and are up at a 36.0% annual rate in the past three months, the most since the oil embargo in 1974. Crude prices increased 4.2% in July and have risen at a 76.5% annual rate in the past three months.

Implications: Inflation is the primary economic problem in the US and is no longer confined to food and energy. The core PPI is up 3.5% versus a year ago, the most since 1991. More core inflation is in the pipeline: the core intermediate index is up 10.2% versus a year ago while core crude prices are up 36.9%, the most since 1980 and 1974, respectively. Falling oil prices are not going to arrest inflation. As oil prices fall, more cash will be spent on other items, leading to accelerating inflation for these goods and services. 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. As a result, the underlying trend in inflation will be upward over the next couple of years.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jul-08	Jun-08	May-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.2%	1.8%	1.4%	18.9%	12.5%	9.8%
Ex Food and Energy	0.7%	0.2%	0.2%	4.7%	4.7%	3.5%
Food	0.3%	1.5%	0.8%	10.9%	6.6%	8.8%
Energy	3.1%	6.0%	4.9%	72.6%	40.3%	28.0%
Consumer Goods	1.2%	2.3%	1.8%	23.4%	14.9%	11.9%
Capital Equipment	0.8%	0.3%	0.1%	4.8%	4.4%	3.1%
Intermediate Goods	2.7%	2.1%	2.9%	36.0%	26.2%	16.8%
Ex Food & Energy	2.0%	1.3%	2.0%	23.2%	17.4%	10.2%
Energy	4.3%	5.0%	6.2%	82.9%	56.1%	37.6%
Crude Goods	4.2%	3.7%	6.7%	76.5%	78.5%	51.3%
Ex Food & Energy	3.4%	-0.2%	5.0%	37.9%	57.4%	36.9%
Energy	6.9%	5.4%	13.1%	164.0%	156.8%	84.9%

Source: Bureau of Labor Statistics