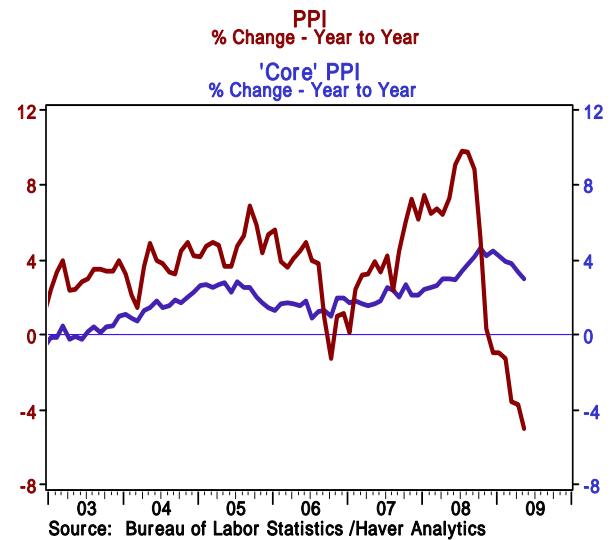


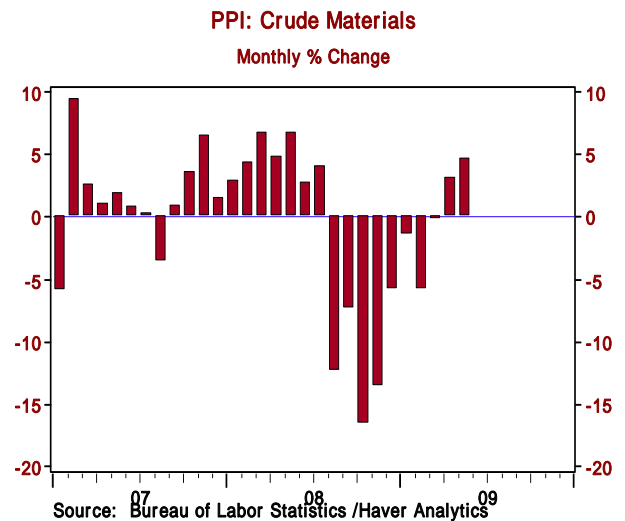
# MAY PPI

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- The Producer Price Index (PPI) increased 0.2% in May versus a consensus expected 0.6%. Due to large, velocity-related declines late last year, the PPI is down 5.0% versus a year ago.
- The May increase in the PPI can be attributed to energy, which increased 2.9%. Food prices declined 1.6%. The “core” PPI, which excludes food and energy, fell 0.1%.
- Consumer goods prices increased 0.3% in May but are down 7.1% versus last year. Capital equipment prices declined 0.1% in May but are up 2.4% versus a year ago.
- Intermediate goods prices increased 0.3% in May but are down 12.3% in the past year. Crude prices spiked up 3.6% in May, on top of a 3.0% increase in April, but are still down 41.3% versus last year.



**Implications:** An inflation problem was not apparent in headline producer prices for May, but do not expect this to last. The Federal Reserve is incredibly loose right now and a panic-caused drop in monetary velocity is ending. As a result, inflation and real economic growth are both set to accelerate. Finished food prices fell an unusual 1.6% in May; without this decline – which is apt to reverse next month – producer prices would have been up 0.5%. Commodity prices have moved significantly higher in the past several weeks and will soon have a large upward impact on the overall PPI. The impact is already evident in prices for crude goods, which increased 3.6% in May and are up at a 47.4% annual rate in the past two months. While overall producer prices are down from a year ago, the “core” PPI for finished goods is still up 3.0%. This is a worrisome sign for the Fed. Phillips Curve models expected a much lower “core” rate of inflation at this point in the business cycle. In other words, fears of deflation have been significantly overblown. We remain concerned that inflation is like the in-laws that visit and never leave.



Producer Price Index <i>All Data Seasonally Adjusted</i>	May-09	Apr-09	Mar-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	<b>0.2%</b>	0.3%	-1.2%	-2.5%	-3.0%	-5.0%
<b>Ex Food and Energy</b>	<b>-0.1%</b>	0.1%	0.0%	0.0%	1.5%	3.0%
<b>Food</b>	<b>-1.6%</b>	1.5%	-0.7%	-3.2%	-6.9%	-2.0%
<b>Energy</b>	<b>2.9%</b>	-0.1%	-5.5%	-10.6%	-13.7%	-26.8%
<b>Consumer Goods</b>	<b>0.3%</b>	0.4%	-1.5%	-2.9%	-4.1%	-7.1%
<b>Capital Equipment</b>	<b>-0.1%</b>	-0.1%	-0.2%	-1.5%	0.5%	2.4%
<b>Intermediate Goods</b>	<b>0.3%</b>	-0.5%	-1.5%	-6.6%	-12.8%	-12.3%
<b>Ex Food &amp; Energy</b>	<b>-0.2%</b>	-0.9%	-0.3%	-5.6%	-9.9%	-5.6%
<b>Energy</b>	<b>2.0%</b>	0.7%	-6.3%	-14.3%	-24.2%	-33.4%
<b>Crude Goods</b>	<b>3.6%</b>	3.0%	-0.3%	27.9%	-14.3%	-41.3%
<b>Ex Food &amp; Energy</b>	<b>6.7%</b>	-0.6%	-1.6%	18.5%	8.3%	-36.7%
<b>Energy</b>	<b>5.3%</b>	2.9%	1.6%	46.9%	-28.1%	-56.9%

Source: Bureau of Labor Statistics