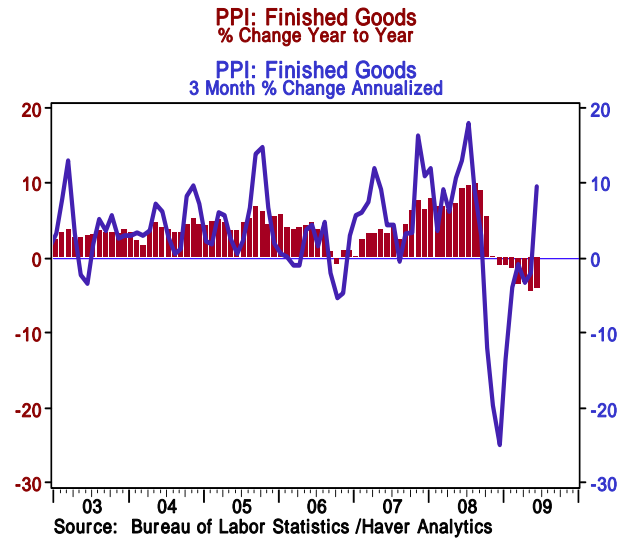


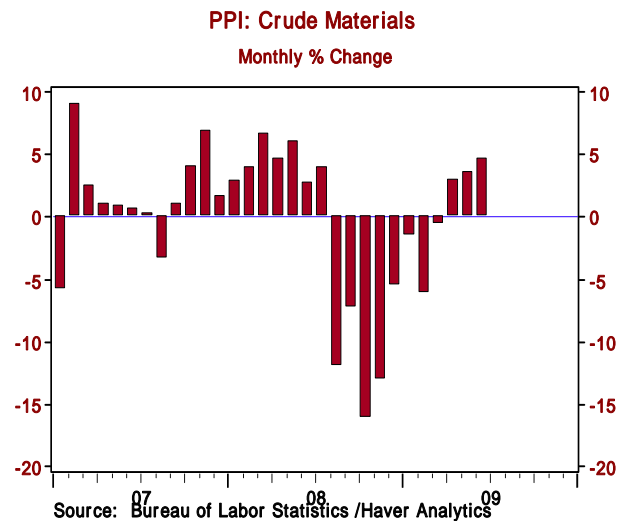
JUNE PPI

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- The Producer Price Index (PPI) increased 1.8% in June versus a consensus expected 0.9%. The PPI is down 4.6% versus a year ago, but up at a 9.5% annual rate in the past three months.
- The June increase in the PPI was mostly due to energy, which increased 6.6%. Food prices increased 1.1%. Even if we exclude these increases, the “core” PPI, which excludes food and energy, increased 0.5%, the largest gain in eight months.
- Consumer goods prices increased 2.2% in June and are up at a 12.2% annual rate in the past three months. Capital equipment prices increased 0.5% in June and are up at a 1.3% rate in the past three months.
- Intermediate goods prices increased 1.9% in June and are up at a 6.8% annual rate in the past three months. Crude prices spiked 4.6% in June, on top of a 3.6% increase in May and a 3.0% increase in April, putting the 3-month gain at 55.2% annualized.



Implications: What a difference a few months makes. Due to the huge drop in monetary velocity in late 2008, producer prices are still below where they were a year ago, for finished, intermediate, and crude goods. However, in the past three months prices have started to rebound from artificially low levels, signaling a revival of velocity. Overall producer prices are up at a 9.5% annual rate versus three months ago, with most of the gains due to energy. Intermediate goods are up at a 6.8% annual rate in the past three months, while crude prices are up at a startling 55.2% rate (40.3% excluding food and energy). Given the decline in oil prices so far in July, producer prices might fall back some for a month. But we expect the underlying trend to show a growing inflation threat. The Federal Reserve is incredibly loose right now and is likely to remain that way through year end, meeting consensus expectations. Once it starts raising rates early next year the Fed will have its work cut out for it.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jun-09	May-09	Apr-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.8%	0.2%	0.3%	9.5%	4.2%	-4.6%
Ex Food and Energy	0.5%	-0.1%	0.1%	2.1%	2.0%	3.3%
Food	1.1%	-1.6%	1.5%	4.2%	-2.3%	-2.1%
Energy	6.6%	2.9%	-0.1%	44.7%	18.8%	-25.2%
Consumer Goods	2.2%	0.3%	0.4%	12.2%	5.3%	-6.4%
Capital Equipment	0.5%	-0.1%	-0.1%	1.3%	0.8%	2.7%
Intermediate Goods	1.9%	0.3%	-0.5%	6.8%	-1.6%	-12.4%
Ex Food & Energy	0.4%	-0.2%	-0.9%	-3.0%	-4.8%	-6.5%
Energy	8.9%	2.0%	0.7%	56.4%	12.7%	-30.4%
Crude Goods	4.6%	3.6%	3.0%	55.2%	5.2%	-40.2%
Ex Food & Energy	2.6%	6.7%	-0.6%	40.3%	17.5%	-35.4%
Energy	10.9%	5.3%	2.9%	108.7%	2.1%	-54.0%

Source: Bureau of Labor Statistics