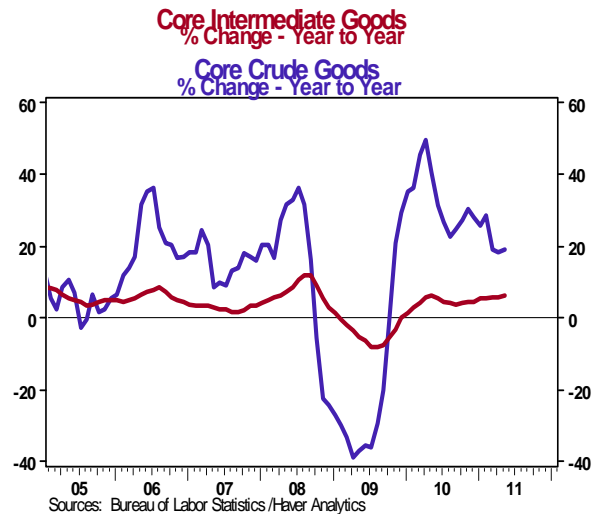
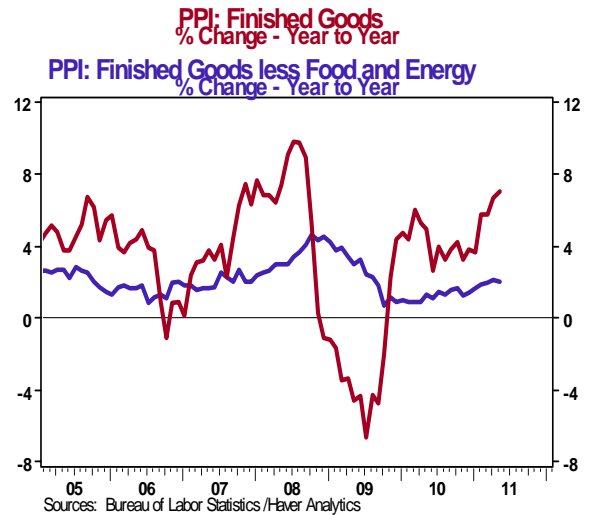


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## May PPI

- The Producer Price Index (PPI) increased 0.2% in May, higher than the consensus expected rise of 0.1%. Producer prices are up 7.3% versus a year ago.
- The May gain in the PPI was led by energy, which increased 1.5%. Food prices fell 1.4%. The “core” PPI, which excludes food and energy, increased 0.2%, matching consensus expectations.
- Consumer goods prices rose 0.2% in May and are up 9.4% versus last year. Capital equipment prices were up 0.2% in May and are up 1.3% in the past year.
- Core intermediate goods prices increased 0.9% in May and are up 6.3% versus a year ago. Core crude prices fell 0.9% in May but are up 19.0% in the past twelve months.

**Implications:** Producer prices continued to move higher in May, outpacing consensus expectations, and are up 7.3% in the past year. Most of the gain in May was due to energy, but core prices (which exclude food and energy) are up at a 3.5% annual rate in the past six months. Further up the production pipeline, core intermediate prices increased 0.9% in May and are up 6.3% versus a year ago. Core crude prices, despite slipping in May, are up 19% in the past year. So while the Federal Reserve can still claim core inflation is low for consumers, core producer prices are accelerating. Based on these inflation signals and the current state of the economy, the Fed’s monetary policy is way too loose. With oil prices so volatile, producer prices are going to be volatile as well. However, we anticipate that the underlying trend in producer price inflation will remain too high. In other recent inflation news, trade prices continue to escalate. Import prices increased 0.2% in May and are up 12.5% versus a year ago. Excluding oil, import prices increased 0.4% in May and are up 4.5% in the past year. Export prices rose 0.2% in May and are up 9% versus a year ago. Excluding farm products, export prices are up 7% in the past year. Like back in the early 2000s the Fed has been too loose for too long.



| <b>Producer Price Index</b><br><i>All Data Seasonally Adjusted</i> | <b>May-11</b> | <b>Apr-11</b> | <b>Mar-11</b> | <b>3-mo % Ch.</b><br><i>annualized</i> | <b>6-mo % Ch.</b><br><i>annualized</i> | <b>Yr to Yr</b><br><i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| <b>Finished Goods</b>  | <b>0.2%</b>   | 0.8%          | 0.7%          | 7.0%                                   | 10.8%                                  | 7.3%                               |
| <b>Ex Food and Energy</b>  | <b>0.2%</b>   | 0.3%          | 0.3%          | 3.0%                                   | 3.5%                                   | 2.1%                               |
| <b>Food</b>  | <b>-1.4%</b>  | 0.3%          | -0.2%         | -5.2%                                  | 7.4%                                   | 4.0%                               |
| <b>Energy</b>  | <b>1.5%</b>   | 2.5%          | 2.6%          | 29.6%                                  | 34.9%                                  | 23.6%                              |
| <b>Consumer Goods</b>  | <b>0.2%</b>   | 0.9%          | 0.8%          | 8.2%                                   | 13.5%                                  | 9.4%                               |
| <b>Capital Equipment</b>   | <b>0.2%</b>   | 0.3%          | 0.3%          | 3.1%                                   | 2.8%                                   | 1.3%                               |
| <b>Intermediate Goods</b>  | <b>0.9%</b>   | 1.3%          | 1.5%          | 15.9%                                  | 17.3%                                  | 10.2%                              |
| <b>Ex Food &amp; Energy</b>  | <b>0.9%</b>   | 1.1%          | 0.9%          | 12.0%                                  | 11.6%                                  | 6.3%                               |
| <b>Energy</b>  | <b>1.4%</b>   | 1.9%          | 2.9%          | 28.2%                                  | 37.7%                                  | 22.3%                              |
| <b>Crude Goods</b>   | <b>-4.1%</b>  | 4.0%          | -0.5%         | -3.0%                                  | 27.0%                                  | 22.5%                              |
| <b>Ex Food &amp; Energy</b>  | <b>-0.9%</b>  | 2.6%          | -2.3%         | -2.6%                                  | 19.5%                                  | 19.0%                              |
| <b>Energy</b>  | <b>-5.2%</b>  | 4.8%          | -0.5%         | -4.6%                                  | 33.8%                                  | 22.8%                              |

Source: Bureau of Labor Statistics