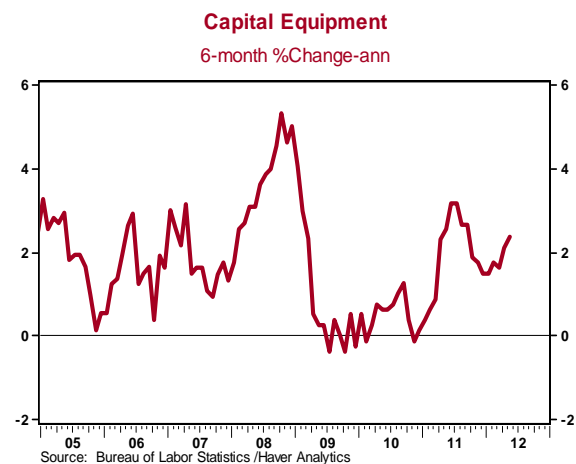
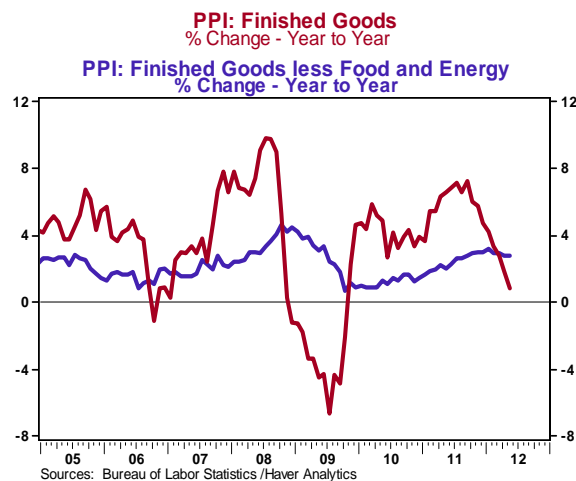


# May PPI

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- The Producer Price Index (PPI) declined 1.0% in May, coming in below the consensus expected drop of 0.6%. Producer prices are up 0.7% versus a year ago.
- Energy prices fell 4.3% and food prices declined 0.6%. The “core” PPI, which excludes food and energy, increased 0.2%.
- Consumer goods prices were down 1.5% in May, but are up 0.3% versus last year. Capital equipment prices rose 0.1% in May and are up 2.1% in the past year.
- Core intermediate goods prices fell 0.2% in May but are up 0.5% versus a year ago. Core crude prices were down 1.3% in May, and are down 3.9% versus a year ago.

**Implications:** Energy prices plummeted in May, dropping by the most in any month in more than three years. Almost completely as a result of this drop, overall producer prices were down 1% in May, coming in below the consensus expected decline of 0.6%. That’s good news for companies making purchases, but no justification for another round of quantitative easing. “Core” prices, which exclude food and energy, and which the Federal Reserve claims are more important than the overall number, were up 0.2% again in May. Core prices are now up 2.7% from last year, which is much faster than the overall PPI. In the past three months, the core PPI is up at a 2.5% annual rate while overall prices are down at a 4.9% rate. In other recent inflation news, trade prices declined in May, with overall import prices down 1% and overall export prices down 0.4%. “Core” prices were also down in the trade sector in May, with imports ex-petroleum ticking down 0.1% and exports ex-agriculture declining 0.5%. Import prices are down 0.3% from a year ago, although up 0.3% excluding oil. Export prices are down 0.1% from a year ago, and up only 0.1% excluding agriculture. We do not expect the lull in inflation to last. With short-term rates being held near zero while nominal GDP is growing at about a 4% annual rate, monetary policy is loose. As a result, all these measures of inflation are very likely to move higher later this year. Be careful of all the stories you’ll read in the near future about how the Federal Reserve was right all along and that inflation is not a problem. By later this year, the conventional wisdom will realize this was temporary.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>May-12</b>	<b>Apr-12</b>	<b>Mar-12</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Finished Goods</b>	<b>-1.0%</b>	-0.2%	0.0%	-4.9%	-1.4%	0.7%
<b>Ex Food and Energy</b>	<b>0.2%</b>	0.2%	0.3%	2.5%	2.8%	2.7%
<b>Food</b>	<b>-0.6%</b>	0.2%	0.2%	-0.8%	-2.6%	3.1%
<b>Energy</b>	<b>-4.3%</b>	-1.4%	-1.0%	-23.6%	-10.5%	-5.7%
<b>Consumer Goods</b>	<b>-1.5%</b>	-0.3%	-0.1%	-7.3%	-2.8%	0.3%
<b>Capital Equipment</b>	<b>0.1%</b>	0.2%	0.2%	2.0%	2.4%	2.1%
<b>Intermediate Goods</b>	<b>-0.8%</b>	-0.5%	0.7%	-2.4%	-0.2%	-0.5%
<b>Ex Food &amp; Energy</b>	<b>-0.2%</b>	0.2%	0.6%	2.3%	2.5%	0.5%
<b>Energy</b>	<b>-3.3%</b>	-2.7%	1.3%	-17.4%	-8.4%	-4.7%
<b>Crude Goods</b>	<b>-3.2%</b>	-4.4%	-2.5%	-33.6%	-16.8%	-8.0%
<b>Ex Food &amp; Energy</b>	<b>-1.3%</b>	-1.8%	1.1%	-7.7%	-2.4%	-3.9%
<b>Energy</b>	<b>-5.0%</b>	-6.8%	-9.2%	-58.2%	-32.2%	-17.3%

Source: Bureau of Labor Statistics