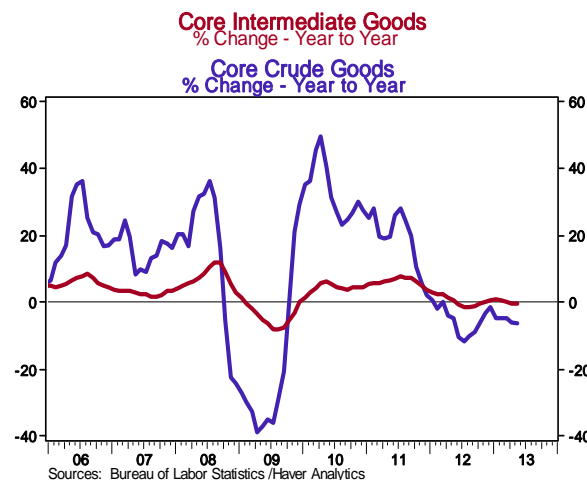
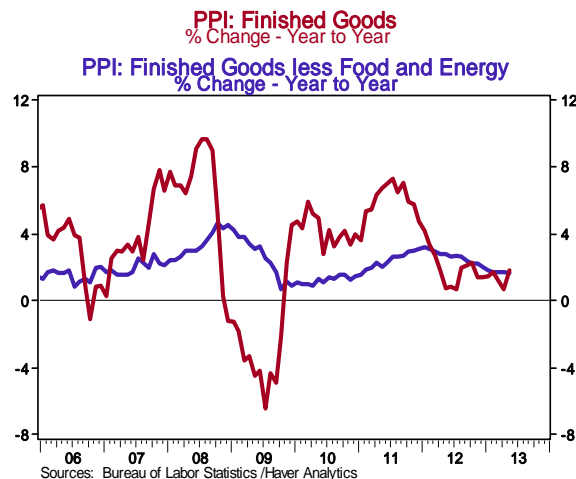


May PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The Producer Price Index (PPI) rose 0.5% in May, coming in much higher than the consensus expected 0.1%. Producer prices are up 1.7% versus a year ago.
- The increase in the overall PPI was due to energy prices, which rose 1.3%, and food prices which were up 0.6%. The “core” PPI, which excludes food and energy, was up 0.1%.
- Consumer goods prices were up 0.6% in May, while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 2.0% while capital equipment prices are up 0.9%.
- Core intermediate goods prices were down 0.4% in May and are down 0.2% versus a year ago. Core crude prices fell 2.3% in May, and are down 6.3% versus a year ago.

Implications: Producer prices rebounded 0.5% in May, easily beating consensus expectations. Even with this rebound, prices are up only 1.7% from a year ago. Given the loose stance of monetary policy, higher inflation is eventually coming, but it isn't here yet. The main culprits behind the wholesale price rise were energy and food prices which rose 1.3% and 0.6% respectively after falling 2.5% and 0.8% in April. Still, energy prices are down 17.3% at an annualized rate over the past three months. “Core” prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.1% in May and are up 1.7% versus a year ago. Some analysts may suggest that with the overall and “core” PPI only up 1.7% from last year that the Federal Reserve has room to continue its latest round of bond buying. We think this is a mistake, and it seems like some more members of the FOMC are starting to think the same thing. Core inflation is likely to continue growing and, despite projections of bumper US crop yields, food inflation should continue moving upward given recent improvement in foreign economies. Monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory in nature. Adding even more excess reserves to the banking system is not going to boost economic growth.



Producer Price Index <i>All Data Seasonally Adjusted</i>	May-13	Apr-13	Mar-13	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.5%	-0.7%	-0.6%	-3.0%	-0.2%	1.7%
Ex Food and Energy	0.1%	0.1%	0.2%	1.3%	1.6%	1.7%
Food	0.6%	-0.8%	0.8%	2.4%	0.1%	3.1%
Energy	1.3%	-2.5%	-3.4%	-17.3%	-5.3%	0.9%
Consumer Goods	0.6%	-1.0%	-0.8%	-4.5%	-0.8%	2.0%
Capital Equipment	0.1%	0.1%	0.1%	1.2%	1.0%	0.9%
Intermediate Goods	0.0%	-0.6%	-0.9%	-6.3%	-0.6%	-0.1%
Ex Food & Energy	-0.4%	-0.2%	0.2%	-1.4%	1.8%	-0.2%
Energy	0.5%	-2.1%	-4.7%	-22.7%	-6.9%	-1.6%
Crude Goods	2.2%	-0.4%	-2.5%	-3.3%	2.2%	7.7%
Ex Food & Energy	-2.3%	-2.8%	0.9%	-15.5%	-9.1%	-6.3%
Energy	5.0%	3.7%	-8.5%	-1.5%	14.5%	16.2%

Source: Bureau of Labor Statistics