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July PPI

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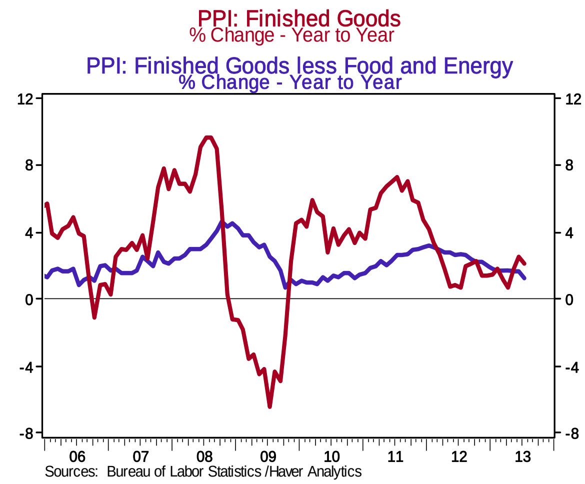
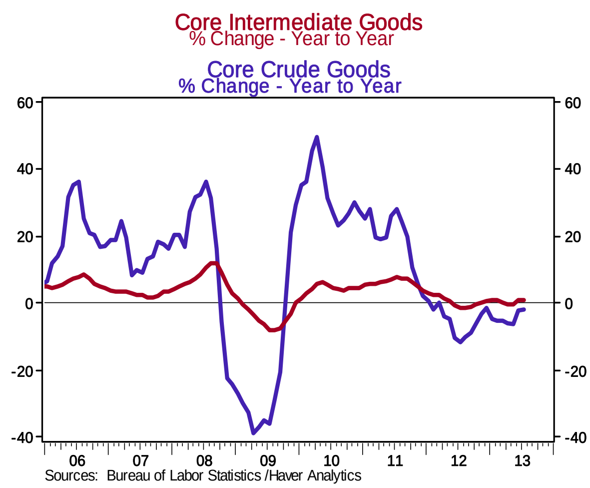
- The Producer Price Index (PPI) was unchanged in July, coming in lower than the consensus expected 0.3% gain. Producer prices are up 2.1% versus a year ago.
- The overall PPI was unchanged due small increases in a few categories offsetting small declines in others. Energy prices were down 0.2% while food prices were unchanged. The "core" PPI, which excludes food and energy, was up 0.1%.
- Both consumer goods prices and capital equipment prices were unchanged in July. In the past year, consumer goods prices are up 2.7% while capital equipment prices are up 0.6%.
- Core intermediate goods prices were down 0.3% in July but are up 1.0% versus a year ago. Core crude prices also declined 0.3% in July, and are down 1.9% versus a year ago.





Implications: After two months of large gains, producer prices were unchanged in July. Looking at the last few months combined, there appears to be some acceleration in producer prices, although it's too early to tell whether this trend will continue uninterrupted. In the past three months, prices for finished goods are up at a 5% annual rate. Intermediate goods are up at a 1.8% rate, which is faster than the 1.4% trend over the past year; crude goods are up at a 14.6% rate in the past three months versus a trend of 9.3% in the past year. Overall producer prices are up 2.1% in the past year while "core" prices, which exclude food and energy are up 1.2%. Some analysts may suggest that with the "core" PPI only up 1.2% from last year that the Federal Reserve has room to continue quantitative easing at a pace of $85 billion per month. We think this is a mistake, and, given the minutes from the most recent Fed meeting, it seems like more members of the FOMC are starting to think the same thing. Monetary policy is loose enough already. We believe the Fed will announce a "taper" of QE at its September meeting and then be completely done with the program by March or April of next year. 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 *All Data Seasonally Adjusted*	Jul-13	Jun-13	May-13	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	**0.0%**	0.8%	0.5%	5.0%	1.2%	2.1%
Ex Food and Energy	**0.1%**	0.2%	0.1%	1.1%	1.3%	1.2%
Food	**0.0%**	0.2%	0.6%	3.6%	0.3%	2.8%
Energy	**-0.2%**	2.9%	1.3%	17.0%	1.8%	4.0%
Consumer Goods	**0.0%**	1.1%	0.6%	6.7%	1.4%	2.7%
Capital Equipment	**0.0%**	0.1%	0.1%	0.5%	1.0%	0.6%
Intermediate Goods	**0.0%**	0.5%	0.0%	1.8%	-0.2%	1.4%
Ex Food & Energy	**-0.3%**	0.1%	-0.4%	-2.2%	-0.3%	1.0%
Energy	**0.3%**	2.0%	0.5%	11.7%	-1.6%	1.5%
Crude Goods	**1.2%**	0.0%	2.2%	14.6%	2.2%	9.3%
Ex Food & Energy	**-0.3%**	0.1%	-2.3%	-9.6%	-9.1%	-1.9%
Energy	**4.0%**	0.3%	5.0%	43.7%	16.8%	21.7%

Source: Bureau of Labor Statistics