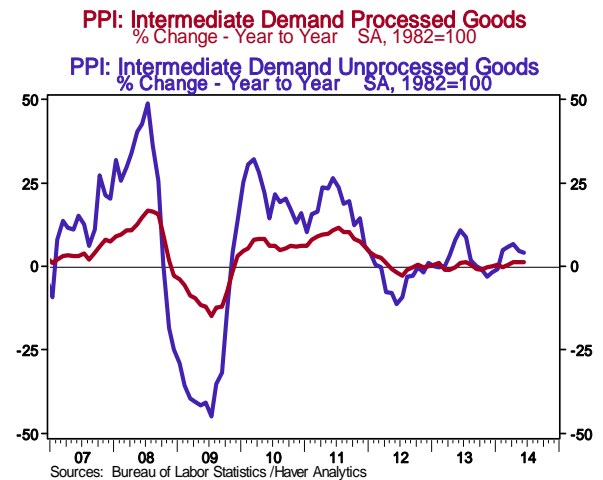
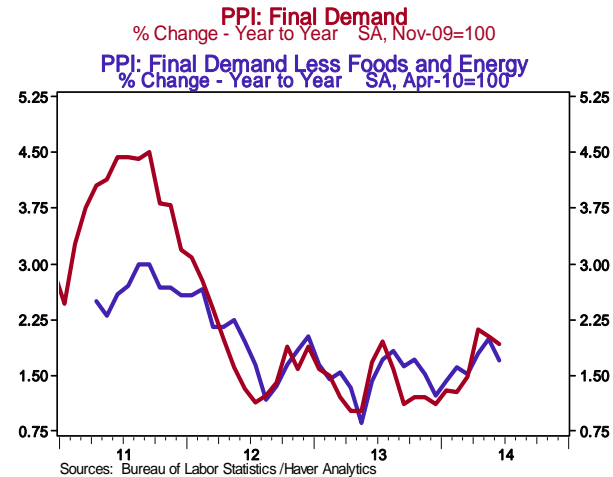


## June PPI

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

- The Producer Price Index (PPI) rose 0.4% in June, coming in above the consensus expected increase of 0.2%. Producer prices are up 1.9% versus a year ago.
- The increase in producer prices was due to both services, up 0.3%, and goods, up 0.5%
- In the past year, prices for service are up 1.9% while goods prices are up 2.1%. Private capital equipment prices were flat in June but are up 1.5% in the past year.
- Prices for intermediate processed goods rose 0.4% June, and are up 1.5% versus a year ago. Prices for intermediate unprocessed goods declined 0.9% in June, but are up 4.2% versus a year ago.

**Implications:** The volatility in producer prices continues as we reach the half way mark for 2014, but the underlying trend points to some acceleration in inflation. Following a large jump in April and dip in May, producer prices rose 0.4% in June, more than making up for last month's decline. The gains in producer prices were broad based, with both goods and service prices moving higher. The rise in the final demand goods index was nearly all due to energy, which rose 2.1% in June. Excluding food and energy, goods prices rose 0.1%. Through the first six months of the year, producer prices are up at a 2.8% annual rate, well above the 1.1% rate over the same period last year. The acceleration is most prevalent in prices for goods, which account for nearly 35% of the total index. Goods prices are up 2.1% in the past year but have climbed at a 3.4% annual rate so far in 2014. By contrast, services are up 1.9% from a year ago and have climbed at a 2.4% rate in the past six months. Prices further back in the production pipeline (intermediate demand) do not yet confirm a continued acceleration in inflation. Prices for processed goods are up at a 1.4% annual rate in the past three months, nearly identical to the 1.5% gain over the past year. Prices for unprocessed goods are down at a 2.1% annual rate in the past three months versus a 4.2% gain from a year ago. Taken as a whole, the trend in producer price inflation is hovering around 2%. Given loose monetary policy, this trend will likely move higher in the year ahead. If anything, the Federal Reserve should be tapering quantitative easing faster than it already is. We expect the Federal Reserve to start raising short-term rates in the first half of 2015, not the second half as many now expect.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Jun-14</b>	<b>May-14</b>	<b>Apr-14</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>Final Demand</b>	<b>0.4%</b>	<b>-0.2%</b>	<b>0.6%</b>	<b>3.3%</b>	<b>2.8%</b>	<b>1.9%</b>
<b>Goods</b>	<b>0.5%</b>	<b>-0.2%</b>	<b>0.6%</b>	<b>3.9%</b>	<b>3.4%</b>	<b>2.1%</b>
<b>- Ex Food &amp; Energy</b>	<b>0.1%</b>	<b>0.0%</b>	<b>0.3%</b>	<b>1.5%</b>	<b>1.9%</b>	<b>1.4%</b>
<b>Services</b>	<b>0.3%</b>	<b>-0.2%</b>	<b>0.6%</b>	<b>3.0%</b>	<b>2.4%</b>	<b>1.9%</b>
<b>Private Capital Equipment</b>	<b>0.0%</b>	<b>-0.1%</b>	<b>0.6%</b>	<b>1.9%</b>	<b>1.7%</b>	<b>1.5%</b>
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.4%</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>1.4%</b>	<b>2.7%</b>	<b>1.5%</b>
<b>- Ex Food &amp; Energy</b>	<b>0.1%</b>	<b>-0.2%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>1.6%</b>	<b>0.8%</b>
<b>Unprocessed Goods</b>	<b>-0.9%</b>	<b>0.0%</b>	<b>0.4%</b>	<b>-2.1%</b>	<b>11.7%</b>	<b>4.2%</b>
<b>- Ex Food &amp; Energy</b>	<b>-1.1%</b>	<b>-0.7%</b>	<b>0.9%</b>	<b>-3.5%</b>	<b>0.2%</b>	<b>0.3%</b>
<b>Services</b>	<b>0.6%</b>	<b>-0.4%</b>	<b>0.1%</b>	<b>1.1%</b>	<b>1.9%</b>	<b>1.5%</b>

Source: Bureau of Labor Statistics