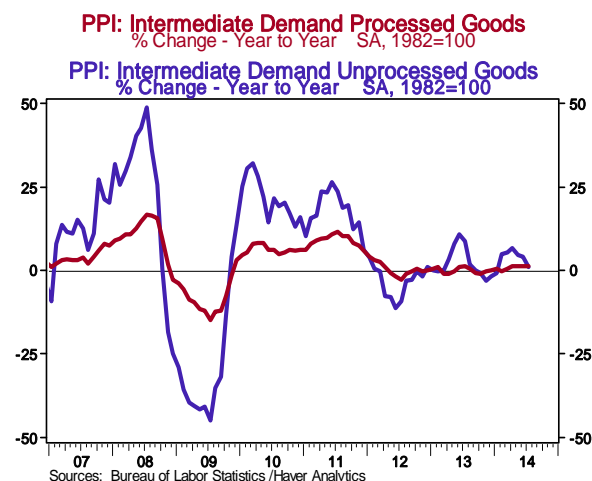
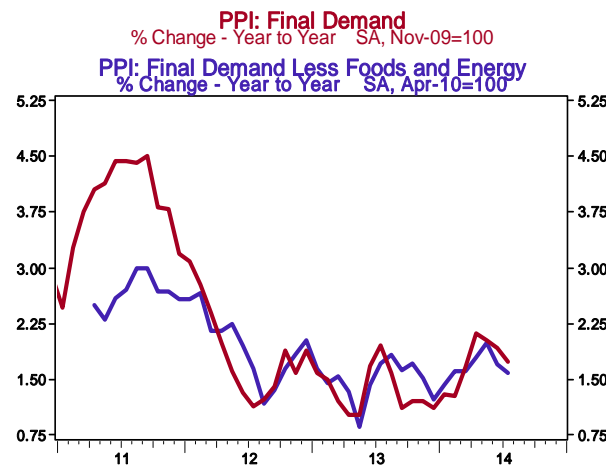


June PPI

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

- The Producer Price Index (PPI) rose 0.1% in July, in line with consensus expectations. Producer prices are up 1.7% versus a year ago.
- All of the increase in producer prices was due to services, which were up 0.1%. Goods prices, including food and energy, were unchanged.
- In the past year, prices for service are up 1.5% while goods prices are up 2.0%. Private capital equipment prices declined 0.2% in July but are up 0.9% in the past year.
- Prices for intermediate processed goods rose 0.1% July, and are up 1.6% versus a year ago. Prices for intermediate unprocessed goods declined 2.7% in July, but are up 1.2% versus a year ago.

Implications: The zig-zag pattern in producer prices continues as we start the second half of 2014, but the underlying trend points to some acceleration in inflation. Following a dip in May and a jump in June, producer prices rose a modest 0.1% in July. The gain was all from services, as goods prices were flat in July. The rise in service prices was led by transportation and warehousing, up 0.5% in July. Prices for goods were flat in July as a 0.6% drop in energy prices offset a 0.4% increase in food and a 0.2% gain in goods excluding food and energy. Through the first seven months of 2014, producer prices are up at a 2.5% annual rate, well above the 1.4% rate over the same period in 2013. The acceleration is more prevalent in prices for goods, which account for nearly 35% of the total index. Goods prices are up 2.0% in the past twelve months but have climbed at a 2.9% annual rate so far in 2014. By contrast, services are up 1.5% from a year ago and have climbed at a 2.2% rate in the past seven 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 1.8% annual rate in the past three months, nearly identical to the 1.6% gain over the past year. Prices for unprocessed goods saw a sharp 2.7% decline in July and are down at a 13.7% annual rate in the past three months. But intermediate demand prices are highly volatile and we expect prices to move higher over the coming months. Taken as a whole, the trend in producer price inflation is hovering around 2%. In other recent news, trade prices showed little inflation in July. Import prices declined 0.2% and were unchanged excluding oil; export prices were unchanged overall, but up 0.3% excluding agriculture. In the past year, import prices are up 0.8% while export prices are up 0.4%. We expect more inflation in the year ahead given loose monetary policy.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Jul-14	Jun-14	May-14	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.1%	0.4%	-0.2%	1.1%	2.4%	1.7%
Goods	0.0%	0.5%	-0.2%	1.4%	2.3%	2.0%
- Ex Food & Energy	0.2%	0.1%	0.0%	1.1%	1.3%	1.6%
Services	0.1%	0.3%	-0.2%	0.7%	2.4%	1.5%
Private Capital Equipment	-0.2%	0.0%	-0.1%	-1.1%	0.8%	0.9%
Intermediate Demand						
Processed Goods	0.1%	0.4%	-0.1%	1.8%	1.6%	1.6%
- Ex Food & Energy	0.3%	0.1%	-0.2%	0.8%	1.3%	1.2%
Unprocessed Goods	-2.7%	-0.9%	0.0%	-13.7%	3.7%	1.2%
- Ex Food & Energy	0.0%	-1.1%	-0.7%	-6.9%	-3.3%	0.5%
Services	0.3%	0.6%	-0.4%	1.9%	1.9%	1.7%

Source: Bureau of Labor Statistics