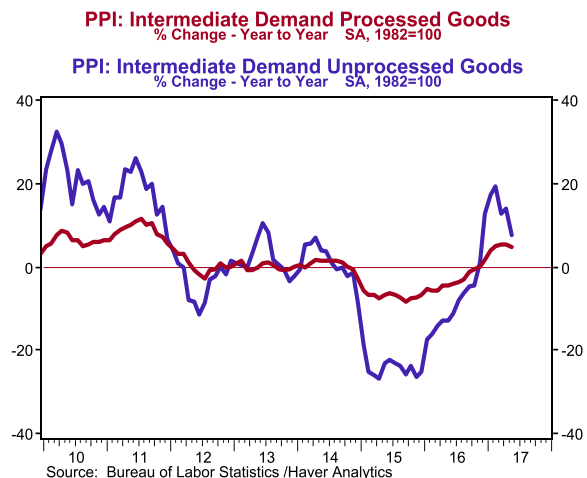
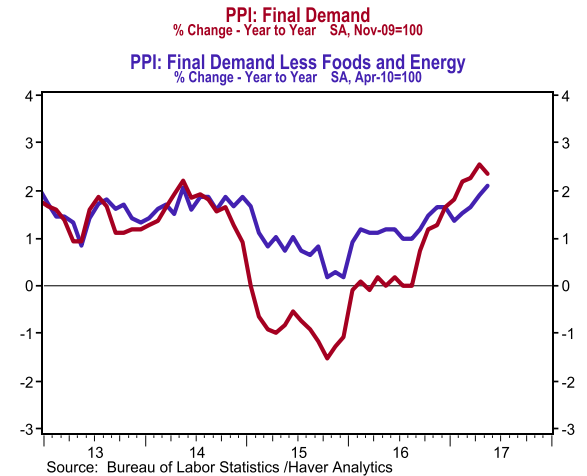


## May PPI

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- The Producer Price Index (PPI) was unchanged in May, matching consensus expectations. Producer prices are up 2.4% versus a year ago.
- Energy prices declined 3.0% in May, while food prices declined 0.2%. Producer prices excluding food and energy rose 0.3%.
- In the past year, prices for goods are up 2.8%, while prices for services are up 2.1%. Private capital equipment prices rose 0.2% in May and are up 1.1% in the past year.
- Prices for intermediate processed goods rose 0.1% in May and are up 4.7% versus a year ago. Prices for intermediate unprocessed goods declined 3.0% in May but are up 7.5% versus a year ago.

**Implications:** In spite of no change in producer prices in May, the Fed is still poised to raise short-term interest rates by another quarter of a percentage point tomorrow. The reason overall producer prices were unchanged in May was because energy prices fell 3% while food prices – led by falling costs for fruits, vegetables and eggs - declined 0.2%. Take out these two volatile sectors, and you are left with “core” prices, which rose 0.3% in May (following a 0.4% rise in April), and have now risen 2.1% in the past twelve months. That's the first move above 2% since 2014. With both headline and “core” producer prices above the Fed's 2% inflation target, there can be little doubt that a rate hike is warranted. The increase in core prices in May was led by margins to wholesalers, which increased 1.1% and pushed prices for services up 0.3%. Goods prices were pulled lower by food and energy, but rose 0.1% in May when excluding those sectors. A look further back in the pipeline shows that prices for intermediate demand are also rising. Intermediate unprocessed goods prices declined 3.0% in May but are up 7.5% in the past year. Meanwhile prices for intermediate processed goods rose 0.1% in May and are up 4.7% over the last twelve months. The Fed will keep these prices, which give a hint to the direction final demand prices will follow in future months, in mind as they plan the path for monetary policy. We expect the Fed to raise rates one more time this year, after tomorrow's hike, while also starting the process of unwinding its bloated balance sheet later this year. The putting pundits may paint a pessimistic picture of the Fed becoming tight, but [as we noted in yesterday's MMO](#), the Fed has plenty of room for further rate hikes before risking recession or a bear market. If anything, the Fed should be concerned about staying too loose for too long.



Producer Price Index All Data Seasonally Adjusted	May-17	Apr-17	Mar-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<b>Final Demand</b>	<b>0.0%</b>	0.5%	-0.1%	1.8%	2.9%	2.4%
<b>Goods</b>	<b>-0.5%</b>	0.5%	-0.1%	-0.7%	3.5%	2.8%
<b>- Ex Food &amp; Energy</b>	<b>0.1%</b>	0.3%	0.4%	2.9%	2.9%	2.2%
<b>Services</b>	<b>0.3%</b>	0.4%	-0.1%	2.5%	2.5%	2.1%
<b>Private Capital Equipment</b>	<b>0.2%</b>	0.4%	0.0%	2.2%	2.0%	1.1%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.1%</b>	0.5%	0.1%	3.0%	5.9%	4.7%
<b>- Ex Food &amp; Energy</b>	<b>0.2%</b>	0.5%	0.7%	5.6%	4.9%	3.8%
<b>Unprocessed Goods</b>	<b>-3.0%</b>	3.3%	-4.2%	-14.9%	14.6%	7.5%
<b>- Ex Food &amp; Energy</b>	<b>-0.7%</b>	-0.7%	2.0%	2.0%	18.1%	8.5%
<b>Services</b>	<b>0.0%</b>	0.9%	-0.2%	2.8%	3.2%	2.7%

Source: Bureau of Labor Statistics

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