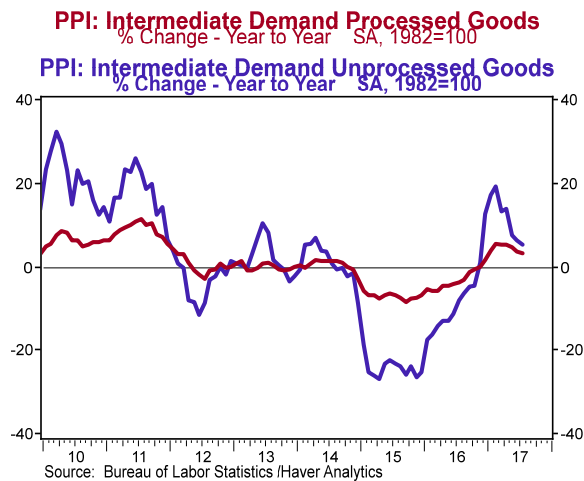
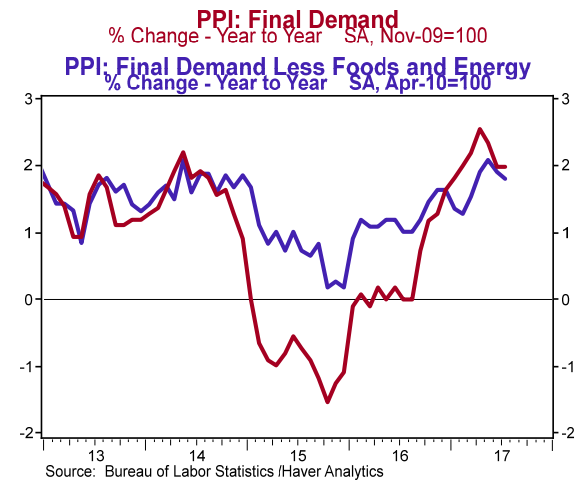


July PPI

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- The Producer Price Index (PPI) declined 0.1% in July versus a consensus expected rise of 0.1%. Producer prices are up 1.9% versus a year ago.
- Energy prices declined 0.3% in July, while food prices were unchanged. Producer prices excluding food and energy declined 0.1%.
- In the past year, prices for goods are up 2.3%, while prices for services are up 1.8%. Private capital equipment prices declined 0.1% in July but are up 2.0% in the past year.
- Prices for intermediate processed goods declined 0.1% in July but are up 3.5% versus a year ago. Prices for intermediate unprocessed goods declined 0.4% in July but are up 5.2% versus a year ago.

Implications: Producer prices declined 0.1% in July, led lower by a 0.2% dip in services. Within the service sector, margins for retailers and wholesalers led the index lower, down 0.5% in July. Declining margins were broad-based, but were led by fuel retailers, chemical wholesalers, and auto retailers. Goods prices also ticked lower in July, with energy prices falling 0.3%. Taking out the typically volatile food and energy sectors, and you are left with “core” prices, which also declined 0.1% in July, but have risen 1.8% in the past twelve months, very close to the 1.9% gain in overall producer prices. So in spite of the dip in prices in July, the trend is very close to the Fed’s 2% inflation target. As a result, today’s data are unlikely to alter the Fed’s view that further rate hikes are warranted, with one coming later this year, and it should soon announce the start of reductions in the size of its balance sheet. We see a similar pattern with prices further up the production pipeline, with a drop in prices in July for both intermediate processed and unprocessed goods, but with these prices up 3.5% and 5.2% over the past year, respectively. The Fed will keep all this in mind as it plans the path of monetary policy. News out this morning on the Fed’s other key area of focus, employment, showed that initial jobless claims rose 3,000 last week to 244,000. Meanwhile continuing claims declined 16,000 to 1.95 million. It’s early, but taking these together and considering the Amazon hiring surge, suggests payrolls will be up in the neighborhood of 190,000 in August, a little faster than the 180,000 monthly average in the past year.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jul-17	Jun-17	May-17	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.1%	0.1%	0.0%	0.0%	1.3%	1.9%
Goods	-0.1%	0.1%	-0.5%	-2.1%	0.2%	2.3%
- Ex Food & Energy	-0.1%	0.1%	0.1%	0.4%	1.6%	1.9%
Services	-0.2%	0.2%	0.3%	1.1%	1.6%	1.8%
Private Capital Equipment	-0.1%	0.5%	0.2%	2.6%	2.4%	2.0%
Intermediate Demand						
Processed Goods	-0.1%	-0.2%	0.1%	-0.4%	1.7%	3.5%
- Ex Food & Energy	-0.3%	-0.2%	0.2%	-0.8%	2.6%	3.0%
Unprocessed Goods	-0.4%	1.5%	-3.0%	-7.3%	-5.6%	5.2%
- Ex Food & Energy	1.2%	0.5%	-0.7%	3.8%	7.1%	9.9%
Services	-0.3%	0.6%	0.0%	1.4%	2.8%	2.2%

Source: Bureau of Labor Statistics