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June PPI

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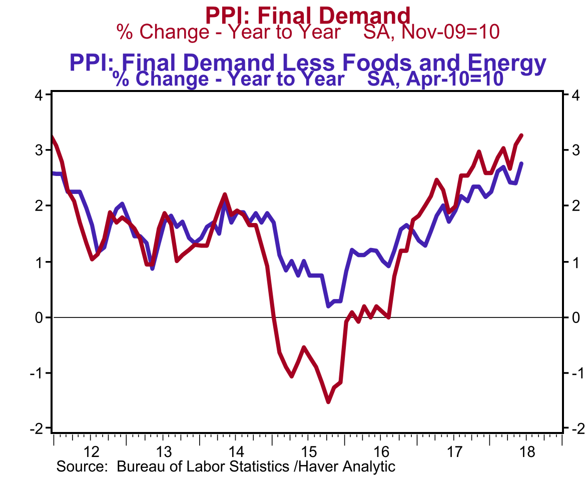
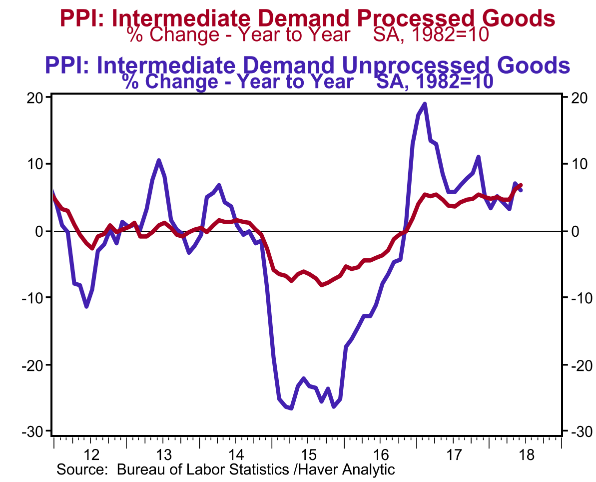
- The Producer Price Index (PPI) increased 0.3% in June, coming in above the consensus expected rise of 0.2%. Producer prices are up 3.4% versus a year ago.
- Energy prices rose 0.8% in June, while food prices declined 1.1%. Producer prices excluding food and energy increased 0.3% in June and are up 2.8% in the past year.
- In the past year, prices for goods are up 4.3%, while prices for services are up 2.8%. Private capital equipment prices increased 0.3% in June and are up 3.5% in the past year.
- Prices for intermediate processed goods rose 0.7% in June and are up 6.8% versus a year ago. Prices for intermediate unprocessed goods declined 1.0% in June but are up 5.8% versus a year ago.





Implications: Through the first half of 2018, producer prices rose at the fastest pace to start a year since 2011. And, at 3.4%, the increase in producer prices over the past year stands well above the Fed's 2% inflation target (for comparison, producer prices rose 1.9% in the twelve months ending June 2017 and 0.2% in the twelve months ending June 2016). While ever-volatile food and energy prices continue to play a role, stripping out those components still shows "core" prices up 2.8% in the past year. No matter how you cut it, inflation has the Fed on notice. And with our expectation of two more hikes this year (for a total of four in 2018) now the consensus – and Fed - expectation, the sights are set on 2019, where we expect to see another four rate hikes. Taking a look at the details of today's report shows producer prices rose 0.3% in June on the back of May's hefty 0.5% increase – tied for the largest monthly jump in more than five years. "Core" prices rose 0.3% in June, with the increase in core prices led by trade services (think margins to wholesalers). Given the elevated levels of order backlogs reported by both manufacturing and service sector firms in the ISM reports, we expect this trend to continue in the months to come until firms can either increase capacity or find qualified workers to fill positions – a task that has become increasingly difficult in a tight labor market. A look further down the pipeline also suggests rising inflation to come. Intermediate processed goods rose 0.7% in June, and are up 6.8% from a year ago, while unprocessed goods prices declined 1.0% in June but remain up 5.8% in the past year. In short, neither inflation nor employment – the two components of the Fed's dual mandate - give the Fed any reason to slow down the pace of raising rates. Monetary policy isn't close to being tight, and steady, gradual hikes this year and next won't change that.

Producer Price Index All Data Seasonally Adjusted Except for Yr to Yr	Jun-18	May-18	Apr-18	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**0.3%**	0.5%	0.1%	3.5%	3.7%	3.4%
Goods	**0.1%**	1.0%	0.0%	4.3%	3.9%	4.3%
- Ex Food & Energy	**0.3%**	0.3%	0.3%	3.2%	3.2%	2.6%
Services	**0.4%**	0.3%	0.1%	3.1%	3.7%	2.8%
Private Capital Equipment	**0.3%**	0.4%	0.4%	4.7%	4.7%	3.5%
Intermediate Demand						
Processed Goods	**0.7%**	1.5%	0.5%	11.4%	7.9%	6.8%
- Ex Food & Energy	**0.7%**	0.8%	0.3%	7.2%	6.4%	4.9%
Unprocessed Goods	**-1.0%**	2.5%	0.9%	10.2%	2.9%	5.8%
- Ex Food & Energy	**-0.2%**	-0.1%	0.7%	1.7%	10.7%	7.9%
Services	**0.1%**	0.3%	0.3%	2.7%	3.1%	2.9%

Source: Bureau of Labor Statistics