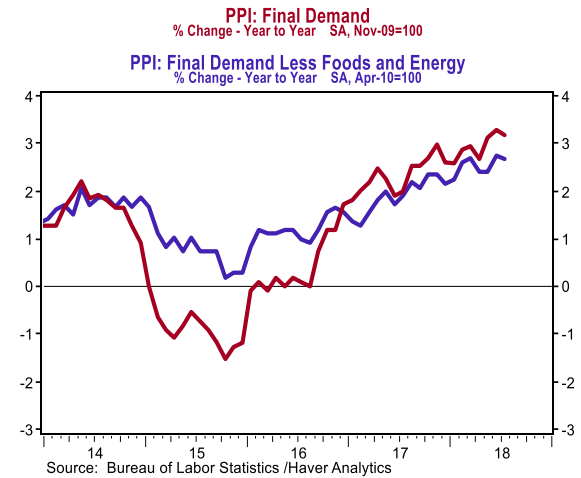


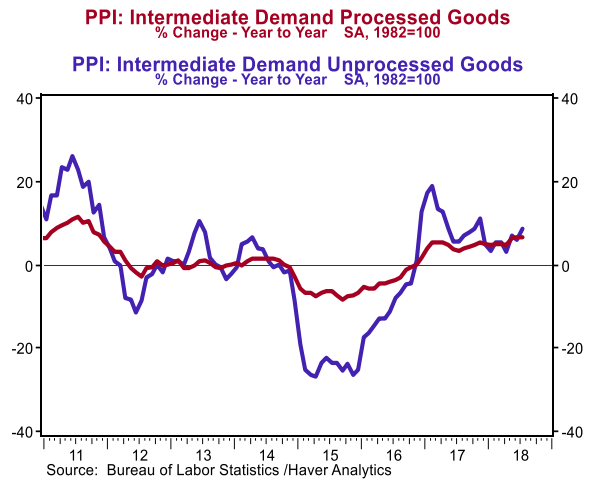
July PPI

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- The Producer Price Index (PPI) was unchanged in July, coming in below the consensus expected rise of 0.2%. Producer prices are up 3.3% versus a year ago.
- Energy prices declined 0.5% in July, while food prices declined 0.1%. Producer prices excluding food and energy increased 0.1% in July and are up 2.7% in the past year.
- In the past year, prices for goods are up 4.5%, while prices for services are up 2.6%. Private capital equipment prices increased 0.3% in July and are up 3.4% in the past year.
- Prices for intermediate processed goods were also unchanged in July but are up 6.8% versus a year ago. Prices for intermediate unprocessed goods rose 2.7% in July and are up 8.2% versus a year ago.



Implications: Producer prices were flat in July – the first month of 2018 not to show an increase of at least 0.2% - as declining prices in a few select sectors held down inflation. But even with the flat reading in July, the producer price index is up 3.3% in the past year, behind just last month for the largest twelve-month increase going back to late 2011. A look at the details in July shows the ever-volatile food and energy sectors declined 0.1% and 0.5%, respectively. Strip out these two components, and “core” prices rose 0.1% in July and are up 2.7% in the past year. In other words, both core and headline PPI measures show inflation easily exceeds the Fed’s 2% inflation target, reinforcing our projection for two more rate hikes this year and four hikes in 2019. In addition to declines in food and energy prices, trade services prices (think margins to wholesalers and retailers) also dropped 0.8% in July. This was likely the result of companies accepting smaller margins in the short-term, rather than raise prices for consumers, as input prices increase. A look at recent ISM reports suggests strong order activity paired with difficulty finding qualified labor and freight truck drivers is putting pricing pressure on some industries. Excluding declines in food, energy, and trade services, producer prices rose 0.3% in July. We view July as an aberration and expect monthly data to show higher inflation in the months ahead. In other news this morning, initial jobless claims declined 6,000 last week to 213,000. Continuing claims rose 29,000 to 1.76 million. These figures suggest job creation continues at a healthy pace in August.



Producer Price Index	Jul-18	Jun-18	May-18	3-mo % Ch.	6-mo % Ch.	Yr to Yr
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				<i>annualized</i>	<i>annualized</i>	<i>% Change</i>
Final Demand	0.0%	0.3%	0.5%	3.2%	2.6%	3.3%
Goods	0.1%	0.1%	1.0%	4.6%	2.8%	4.5%
- Ex Food & Energy	0.3%	0.3%	0.3%	3.2%	3.2%	2.8%
Services	-0.1%	0.4%	0.3%	2.4%	2.4%	2.6%
Private Capital Equipment	0.3%	0.3%	0.4%	3.9%	4.7%	3.4%
Intermediate Demand						
Processed Goods	0.0%	0.7%	1.5%	9.0%	6.1%	6.8%
- Ex Food & Energy	0.3%	0.7%	0.8%	7.6%	6.1%	5.3%
Unprocessed Goods	2.7%	-1.0%	2.5%	18.2%	4.4%	8.2%
- Ex Food & Energy	-1.2%	-0.2%	-0.1%	-5.7%	0.8%	5.7%
Services	0.2%	0.1%	0.3%	2.0%	2.8%	3.0%

Source: Bureau of Labor Statistics