

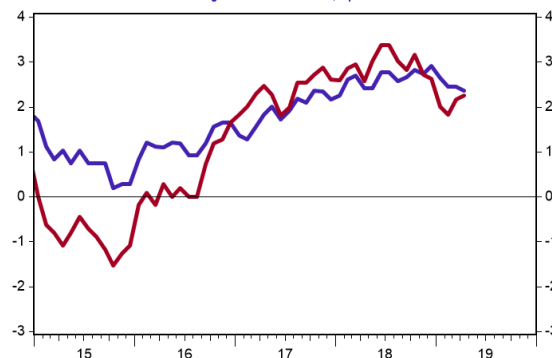
April PPI

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- The Producer Price Index (PPI) increased 0.2% in April, below the consensus expected rise of 0.3%. Producer prices are up 2.2% versus a year ago.
- Energy prices rose 1.8% in April, while food prices declined 0.2%. Producer prices excluding food and energy rose 0.1% in April and are up 2.4% in the past year.
- In the past year, prices for goods are up 1.5%, while prices for services are up 2.4%. Private capital equipment prices rose 0.4% in April and are up 2.9% in the past year.
- Prices for intermediate processed goods fell 0.1% in April but are up 0.7% versus a year ago. Prices for intermediate unprocessed goods rose 2.7% in April but are down 2.0% versus a year ago.

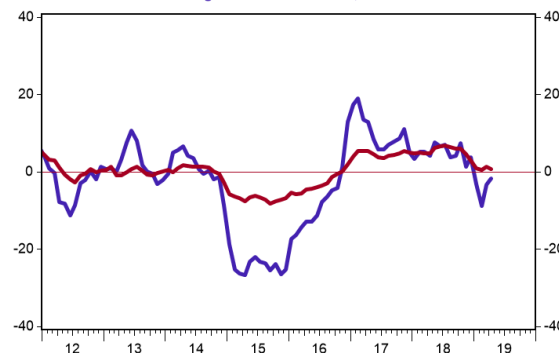
Implications: After surging 0.6% in March, Producer prices increased at a more normal 0.2% pace in April. But just like the previous two months, the main driver of rising prices in April were energy prices, which rose 1.8% for the month. Energy prices are now up 43.3% annualized over the past three months, while overall producer prices have risen at a 3.5% rate. Meanwhile “core” prices, which exclude food and energy, rose 0.1% in April. In the past year, producer prices are up 2.2%, while core prices are up 2.4%. In other words, regardless of which measure you prefer, inflation is running modestly above the Fed’s 2% inflation target. And this is a trend, not the result of short-term volatility. “Core” prices have now exceeded the 2% target for twenty-one consecutive months. Outside of energy, the April increase in producer prices was led by portfolio management services, which jumped 5.3%. Hospital outpatient care, machinery, equipment, and parts services also moved higher. In contrast, trade services was the only major category to show a decline in April, falling 0.5%. Notably, private capital equipment prices are up 2.9% in the past year, the fastest year-over-year growth of any major category, possibly signaling rising demand for business investment which will provide a boost to economic activity in the year ahead. Given these readings, we think many investors are severely mistaken in their belief that the Fed will cut rates before the end of the year. The data – for employment, inflation, and GDP growth – suggest further rate hikes, not rate cuts, are more likely.

PPI: Final Demand
 % Change - Year to Year SA, Nov-09=100
PPI: Final Demand Less Foods and Energy
 % Change - Year to Year SA, Apr-10=100



Source: Bureau of Labor Statistics/Haver Analytics

PPI: Intermediate Demand Processed Goods
 % Change - Year to Year SA, 1982=100
PPI: Intermediate Demand Unprocessed Goods
 % Change - Year to Year SA, 1982=100



Source: Bureau of Labor Statistics/Haver Analytics

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Apr-19	Mar-19	Feb-19	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.2%	0.6%	0.1%	3.5%	1.0%	2.2%
Goods	0.3%	1.0%	0.4%	6.8%	-0.3%	1.5%
- Ex Food & Energy	0.0%	0.2%	0.1%	1.0%	1.2%	1.8%
Services	0.1%	0.3%	0.0%	1.7%	1.5%	2.4%
Private Capital Equipment	0.4%	0.1%	0.0%	2.1%	1.7%	2.9%
Intermediate Demand						
Processed Goods	-0.1%	0.8%	0.4%	4.1%	-4.2%	0.7%
- Ex Food & Energy	-0.4%	0.0%	0.1%	-1.2%	-3.0%	0.9%
Unprocessed Goods	2.7%	2.3%	-4.6%	0.8%	-8.3%	-2.0%
- Ex Food & Energy	-1.2%	1.2%	-0.7%	-3.1%	-0.5%	-4.5%
Services	0.3%	0.4%	-0.1%	2.7%	2.2%	2.8%

Source: Bureau of Labor Statistics