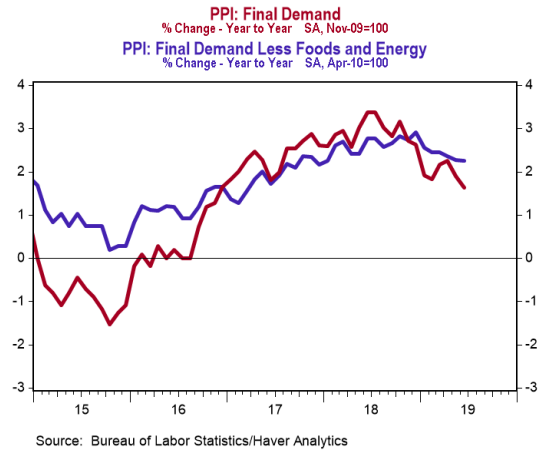


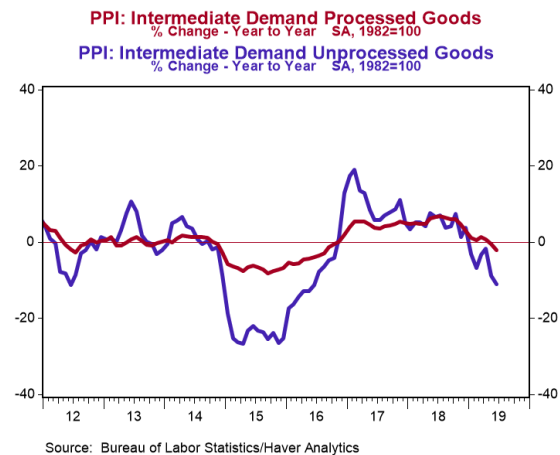
June PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- The Producer Price Index (PPI) increased 0.1% in June, coming in above the consensus expectation of no change. Producer prices are up 1.7% versus a year ago.
- Energy prices fell 3.1% in June, while food prices rose 0.6%. Producer prices excluding food and energy rose 0.3% in June and are up 2.3% in the past year.
- In the past year, prices for goods are unchanged, while prices for services are up 2.5%. Private capital equipment prices were unchanged in June but are up 2.4% in the past year.
- Prices for intermediate processed goods fell 1.1% in June and are down 2.1% versus a year ago. Prices for intermediate unprocessed goods declined 3.3% in June and are down 11.0% versus a year ago.



Implications: As with yesterday’s report on consumer prices, today’s reading on inflation from the producer side came in higher than the consensus estimate and shows “core” inflation – which excludes the volatile food and energy sectors and is a better measure of trend inflation – running above the Fed’s 2% inflation target. You may think that these reports (plus the strong June employment report) would mean the Fed will hold off on a much hinted at plan to cut rates at the end of this month, and we would agree that a rate cut isn’t needed. But without resolution on the China trade disputes, we expect the Fed will cite “uncertainties” and implement a cut, most likely of only 25 basis points. Digging into the details of today’s report shows producer prices are up 1.7% in the past year (not far off the Fed’s 2% inflation target) and, as mentioned above, “core” prices are up 2.3% in the past year, already above the Fed’s target. The rise in June was led by prices for services, where the 0.4% increase from May represents the largest increase since last October. The jump in prices for services offset a 0.4% decline in the prices for goods (largely accounted for by the 3.1% drop in energy prices). This continues a trend seen over the past year, during which service prices are up 2.5% while goods prices are flat. But strip out just energy, and goods prices are up 1.6% in the past year. In other words, inflation has been broadly moving higher, with concentrated pockets holding back readings from reaching the Fed’s target. It’s also notable that private capital equipment prices, a signal of demand for business investment, are up a healthy 2.4% in the past year. Given these readings, a 3.7% unemployment rate, and an average 192,000 jobs added per month over the past year, the data are clearly not flashing signals of tight monetary policy.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jun-19	May-19	Apr-19	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.1%	0.1%	0.2%	1.4%	1.7%	1.7%
Goods	-0.4%	-0.2%	0.3%	-1.4%	0.7%	0.0%
- Ex Food & Energy	0.0%	0.0%	0.0%	0.0%	0.9%	1.4%
Services	0.4%	0.3%	0.1%	3.1%	2.4%	2.5%
Private Capital Equipment	0.0%	0.2%	0.4%	2.4%	2.6%	2.4%
Intermediate Demand						
Processed Goods	-1.1%	-0.2%	-0.1%	-5.3%	-3.0%	-2.1%
- Ex Food & Energy	-0.1%	0.1%	-0.4%	-1.6%	-1.4%	-0.2%
Unprocessed Goods	-3.3%	-5.1%	2.7%	-21.1%	-23.1%	-11.0%
- Ex Food & Energy	-0.5%	-4.5%	-1.2%	-22.7%	-14.3%	-9.5%
Services	0.2%	0.0%	0.3%	2.3%	2.3%	2.6%

Source: Bureau of Labor Statistics