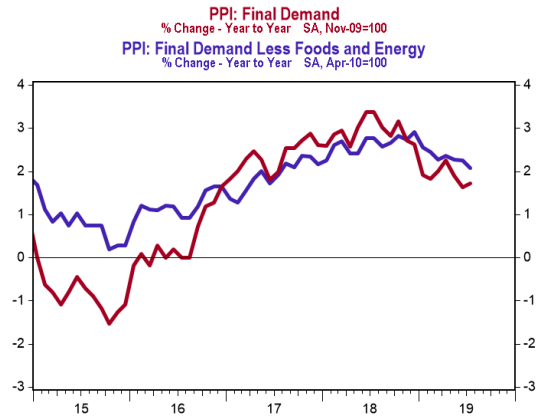


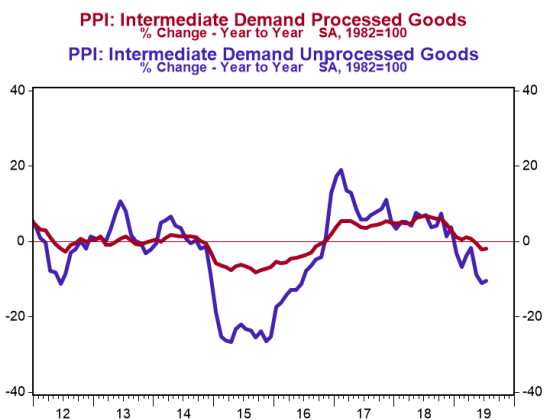
# July PPI

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- The Producer Price Index (PPI) increased 0.2% in July, matching consensus expectations. Producer prices are up 1.7% versus a year ago.
- Energy prices rose 2.3% in July, while food prices rose 0.2%. Producer prices excluding food and energy declined 0.1% in July but are up 2.1% in the past year.
- In the past year, prices for goods are up 0.4%, while prices for services have increased 2.3%. Private capital equipment prices rose 0.4% in July and are up 2.3% in the past year.
- Prices for intermediate processed goods rose 0.2% in July but are down 2.0% versus a year ago. Prices for intermediate unprocessed goods increased 1.6% in July but are down 10.4% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



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**Implications:** Inflation is under the microscope as the Fed plans its next move, and today’s report did little to clarify the picture. Energy prices - up 2.3% on rising gasoline costs - led the producer price index 0.2% higher in July. As a result, producer prices are up 1.7% in the past year. That’s below the Fed’s 2% inflation target, but not by much. Those seeking further rate cuts will point to July’s 0.1% decline in “core” inflation (which excludes the volatile food and energy sectors). And while we agree that the core reading is a better measure of trend inflation, July represents the first monthly decline for that measure in more than two years. More important is that, even with the July decline, core inflation is still up 2.1% in the past year and has run above 2% on a year-ago comparison basis for the past twenty-four months straight. A 4.3% decline in prices for guestroom rentals was the key contributor to core prices moving lower in July. Goods prices excluding food and energy rose 0.1% in July, while prices for services declined 0.1%. It’s notable that private capital equipment prices, a signal of demand for business investment, rose 0.4% in July and are up a healthy 2.3% in the past year. Interestingly, these prices were falling in the late 1990s, when the Fed was mistakenly lifting rates. What will this all mean for the Fed? Not much. The [Flailing Fed](#) showed at the July meeting that it has moved away from being “data dependent,” and is leaning toward another cut even if the economic data don’t support it. Political and bond market pressures have the Fed on its heels, and it will try to justify a cut however it can. Case in point? Go re-watch the last two Fed Chair press conferences and see if you can find a coherent rationale for the rate cut in July that Powell said wasn’t warranted in June. At the end of the day, do we think another rate cut is needed? No, and we don’t think they should have cut in July. But the Fed is very likely to cut rates in September anyhow. In recent employment news, initial jobless claims fell 8,000 last week to 209,000. Continuing claims declined 15,000 to 1.684 million. Plugging these figures into our model suggests nonfarm payrolls continue to grow at a healthy pace in August.

<b>Producer Price Index</b> <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	<b>Jul-19</b>	<b>Jun-19</b>	<b>May-19</b>	<b>3-mo % Ch.</b> <small>annualized</small>	<b>6-mo % Ch.</b> <small>annualized</small>	<b>Yr to Yr</b> <small>% Change</small>
<b>Final Demand</b>	<b>0.2%</b>	0.1%	0.1%	1.4%	2.6%	1.7%
<b>Goods</b>	<b>0.4%</b>	-0.4%	-0.2%	-0.7%	2.8%	0.4%
<b>- Ex Food &amp; Energy</b>	<b>0.1%</b>	0.0%	0.0%	0.3%	0.5%	1.2%
<b>Services</b>	<b>-0.1%</b>	0.4%	0.3%	2.4%	2.4%	2.3%
<b>Private Capital Equipment</b>	<b>0.4%</b>	0.0%	0.2%	2.4%	2.4%	2.3%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.2%</b>	-1.1%	-0.2%	-4.1%	-0.8%	-2.0%
<b>- Ex Food &amp; Energy</b>	<b>-0.2%</b>	-0.1%	0.1%	-0.8%	-1.8%	-0.8%
<b>Unprocessed Goods</b>	<b>1.6%</b>	-3.3%	-5.1%	-24.3%	-12.8%	-10.4%
<b>- Ex Food &amp; Energy</b>	<b>1.9%</b>	-0.5%	-4.5%	-12.4%	-7.6%	-6.2%
<b>Services</b>	<b>-0.2%</b>	0.2%	0.0%	0.3%	1.7%	2.0%

Source: Bureau of Labor Statistics