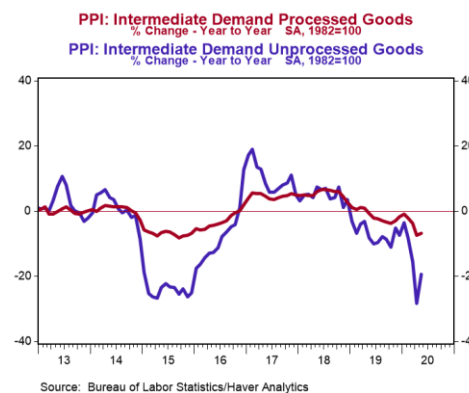
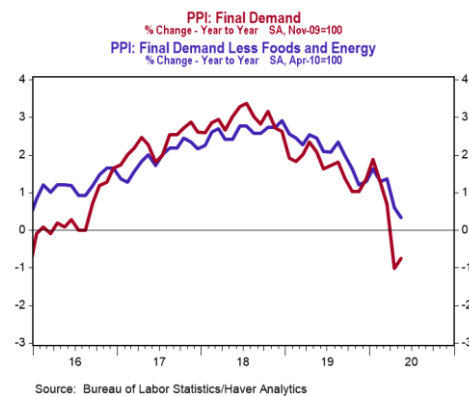


May PPI

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- The Producer Price Index (PPI) rose 0.4% in May versus a consensus expected +0.1%. Producer prices are down 0.8% versus a year ago.
- Food prices increased 6.0 % in May, while energy prices rose 4.5%. Producer prices excluding food and energy declined 0.1% in May, but are up 0.3% in the past year.
- In the past year, prices for goods are down 3.3%, while prices for services have increased 0.3%. Private capital equipment prices fell 0.3% in May and are unchanged in the past year.
- Prices for intermediate processed goods rose 0.1% in May but are down 6.8% versus a year ago. Prices for intermediate unprocessed goods increased 8.9% in May, but are down 19.4% versus a year ago.



Implications: The impacts of the Coronavirus continued to play a dominant role in the producer price data, as shutdowns at meat packing plants – a hotbed for COVID outbreaks – pushed meat prices, and the producer price index, higher in May. The 40.4% jump in the meat index led the 6.0% increase in food prices in May, while a 43.9% surge in gas prices (the largest single-month increase on record dating back to the early 1970s) pushed energy prices higher by 4.5%. Outside of the typically volatile food and energy categories, producer prices declined 0.1% in May. The decline in “core” prices was led by final demand trade services (which measures margins received by wholesalers and retailers), down 0.8%. That decline was partially offset by higher costs for transportation and warehousing services, which rose 1.5%. Core producer prices as a whole are up 0.3% over the past twelve months. Both the recent oil-market turmoil and supply chain (and general business) disruptions related to COVID-19 will muddy the data over the coming weeks and months, and likely create excess volatility. Once the dust finally settles – and it eventually will – we expect inflation to trend back toward 2% and then higher. The Federal Reserve is loose and, [as the Fed made abundantly clear yesterday](#), plans to stay that way for the foreseeable future. Meanwhile, a combination of business shutdowns (or operating at limited capacity) and unusually generous unemployment benefits remain a headwind to economic activity. The result will eventually be too much money chasing too few goods (and services), meaning higher – but not hyper – inflation. Further down the pipeline, prices for intermediate demand processed goods rose 0.1% in May, while intermediate demand unprocessed goods jumped 8.9%. In spite of the movement higher in May, both intermediate demand categories continue to show prices broadly lower compared to year-ago levels. The data is starting to shift higher, tracking the emergence of the economy from what was [a severe – but short – recession](#). We still have a long way to go to get back to where we were at the start of 2020, but the initial steps of recovery are under way. On the employment front this morning, initial jobless claims declined for a tenth consecutive week, coming in at 1.542 million last week, down 355,000 from the week before. Continuing claims, which lag initial claims by a week, declined 339,000 to a reading of 20.929 million. [Last week’s employment report](#) surprised virtually everyone by showing nonfarm payrolls rose 2.5 million in the month of May, following April’s historically large job losses. Continue to watch the claims data for a pulse on the labor market recovery as the US gets gradually back to work.

Producer Price Index <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	May-20	Apr-20	Mar-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	0.4%	-1.3%	-0.2%	-4.0%	-1.8%	-0.8%
Goods	1.6%	-3.3%	-1.0%	-10.3%	-6.3%	-3.3%
- Ex Food & Energy	0.0%	-0.4%	0.2%	-1.0%	0.0%	0.2%
Services	-0.2%	-0.2%	0.2%	-1.0%	0.3%	0.3%
Private Capital Equipment	-0.3%	-0.3%	0.2%	-1.4%	0.9%	0.0%
Intermediate Demand						
Processed Goods	0.1%	-3.7%	-1.1%	-17.4%	-11.1%	-6.8%
- Ex Food & Energy	-0.6%	-1.5%	-0.1%	-8.2%	-4.7%	-3.4%
Unprocessed Goods	8.9%	-13.7%	-8.0%	-44.0%	-35.3%	-19.4%
- Ex Food & Energy	0.6%	-4.3%	1.3%	-9.7%	8.7%	2.6%
Services	-0.4%	-1.6%	-0.1%	-8.2%	-3.3%	-1.6%

Source: Bureau of Labor Statistics