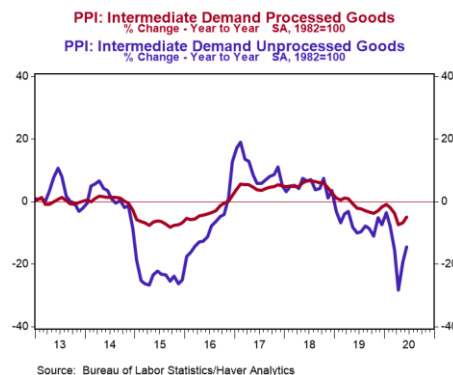
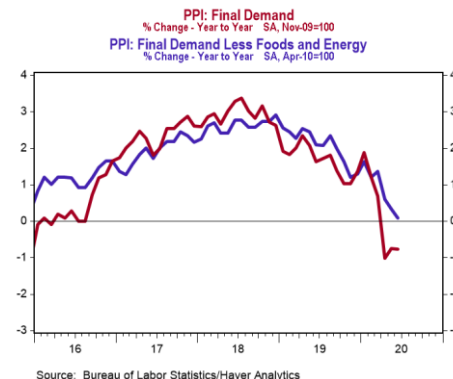


June PPI

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

- The Producer Price Index (PPI) declined 0.2% in June versus a consensus expected +0.4%. Producer prices are down 0.8% versus a year ago.
- Food prices declined 5.2% in June, while energy prices rose 7.7%. Producer prices excluding food and energy declined 0.3% in June, but are up 0.1% in the past year.
- In the past year, prices for goods are down 2.6%, while prices for services have declined 0.1%. Private capital equipment prices fell 0.9% in June and are down 0.5% in the past year.
- Prices for intermediate processed goods rose 0.9% in June but are down 5.0% versus a year ago. Prices for intermediate unprocessed goods increased 3.1% in June, but are down 14.6% versus a year ago.

Implications: The Coronavirus continues to bring volatility to producer prices, as both goods and services industries adapt to supply chain disruptions and reopening efforts. Expectations were for a 0.4% increase in producer prices, but instead a 1.8% decline in trade services (think margins to wholesalers and retailers) more than offset rising costs for goods. In particular, margins for machinery and vehicle wholesaling, down 7.3% in June, represented 80% of the decline in the services sub-index. On the goods side, the typically volatile food and energy categories lived up to their reputations, with food prices declining 5.2% (essentially reversing the jump back in May when meat processing plants shutdowns limited supply) while energy prices rose 7.7% on the back of higher gasoline costs. Strip out these volatile categories, and “core” producer prices declined 0.3% in June. Core producer prices are essentially flat over the past twelve months. Expect disruptions related to COVID-19 to continue to muddy the data over the coming months, with excess volatility in no short supply. 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 it has made abundantly clear, plans to stay that way for the foreseeable future. Meanwhile, a combination of businesses 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 0.9% in June, while intermediate demand unprocessed goods jumped 3.1%. In spite of the movement higher in June, 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, and we don’t expect the pickup in cases across some states to stop growth from marching onward. In recent news on the employment front, initial jobless claims declined for a fourteenth consecutive week, coming in at 1.314 million last week, down 99,000 from the week before. Continuing claims, which lag initial claims by a week, declined 698,000 to a reading of 18.062 million. These figures suggest the rebound in the labor market continues in July, although it far from fully healed.



Producer Price Index <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	Jun-20	May-20	Apr-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	-0.2%	0.4%	-1.3%	-4.0%	-2.7%	-0.8%
Goods	0.2%	1.6%	-3.3%	-6.2%	-6.3%	-2.6%
- Ex Food & Energy	0.1%	0.0%	-0.4%	-1.3%	0.2%	0.3%
Services	-0.3%	-0.2%	-0.2%	-3.0%	-1.0%	-0.1%
Private Capital Equipment	-0.9%	-0.3%	-0.3%	-5.3%	-1.2%	-0.5%
Intermediate Demand						
Processed Goods	0.9%	0.1%	-3.7%	-10.4%	-9.4%	-5.0%
- Ex Food & Energy	0.5%	-0.6%	-1.5%	-6.3%	-3.5%	-2.6%
Unprocessed Goods	3.1%	8.9%	-13.7%	-11.9%	-32.9%	-14.6%
- Ex Food & Energy	1.1%	0.6%	-4.3%	-10.2%	4.6%	4.3%
Services	0.2%	-0.4%	-1.6%	-7.3%	-3.9%	-1.5%

Source: Bureau of Labor Statistics