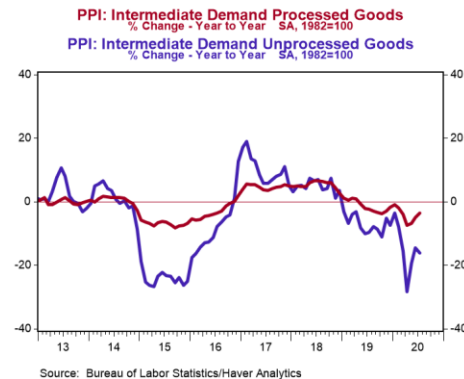
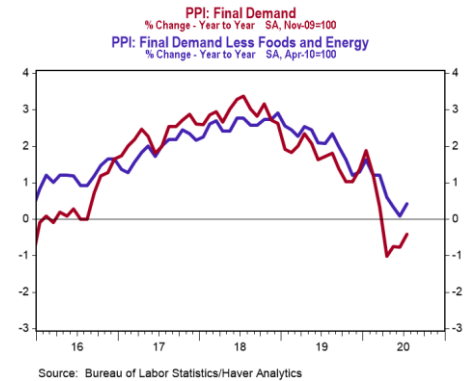


# July PPI

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- The Producer Price Index (PPI) rose 0.6% in July versus a consensus expected 0.3%. Producer prices are down 0.4% versus a year ago.
- Energy prices rose 5.3% in July, while food prices declined 0.5%. Producer prices excluding food and energy rose 0.5% in July and are up 0.3% in the past year.
- In the past year, prices for goods are down 2.0%, while prices for services have risen 0.3%. Private capital equipment prices rose 0.9% in July, but are unchanged in the past year.
- Prices for intermediate processed goods rose 1.5% in July, but are down 3.6% versus a year ago. Prices for intermediate unprocessed goods declined 0.7% in July and are down 16.3% versus a year ago.

**Implications:** Producer prices jumped in July, the second largest monthly rise in nearly eight years. Consensus expectations were for a 0.3% increase in producer prices, but rising costs virtually across the board resulted in a more substantial 0.6% increase. On the services side, margins led the way, with final demand trade services (margins to wholesalers and retailers) rising 0.8%, and final demand services less trade, transportation, and warehousing (think hospitals, financial services, and lodging) increasing 0.4%. On the goods side, the typically volatile food and energy categories continue to live up to their reputations, with energy prices up 5.3% - a third consecutive month of 4%+ increases - while food prices declined 0.5% on lower costs for meat. Strip out these volatile categories, and “core” producer prices rose 0.5% in July, matching the largest monthly increase in the series’ (short) history dating back to early 2010. Core producer prices are up a modest 0.3% over the past twelve months, but expect that to move higher in the months ahead. Disruptions related to COVID-19 continue to muddy the data, with excess volatility in no short supply, but what is clear is the massive increase in the M2 money supply, up 22.7% in the past year. 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, businesses operating at limited capacity will 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 1.5% in July, while intermediate demand unprocessed goods declined 0.7%. 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 ([read this week’s Monday Morning Outlook for more on that topic](#)), but the initial steps of recovery are under way, and we expect growth will march onward through the close of this year and beyond.



Producer Price Index	Jul-20	Jun-20	May-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Final Demand</b>	<b>0.6%</b>	-0.2%	0.4%	3.5%	-2.0%	-0.4%
<b>Goods</b>	<b>0.8%</b>	0.2%	1.6%	10.9%	-5.3%	-2.0%
<b>- Ex Food &amp; Energy</b>	<b>0.3%</b>	0.1%	0.0%	1.7%	0.3%	0.5%
<b>Services</b>	<b>0.5%</b>	-0.3%	-0.2%	0.0%	-0.5%	0.3%
<b>Private Capital Equipment</b>	<b>0.9%</b>	-0.9%	-0.3%	-0.7%	0.2%	0.0%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>1.5%</b>	0.9%	0.1%	10.5%	-6.4%	-3.6%
<b>- Ex Food &amp; Energy</b>	<b>0.5%</b>	0.5%	-0.6%	1.4%	-2.7%	-1.9%
<b>Unprocessed Goods</b>	<b>-0.7%</b>	3.1%	8.9%	54.4%	-32.5%	-16.3%
<b>- Ex Food &amp; Energy</b>	<b>0.3%</b>	1.1%	0.6%	8.2%	-4.7%	3.2%
<b>Services</b>	<b>0.7%</b>	0.2%	-0.4%	1.7%	-2.9%	-1.0%

Source: Bureau of Labor Statistics