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April PPI

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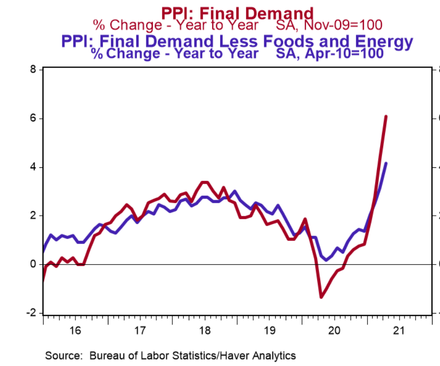
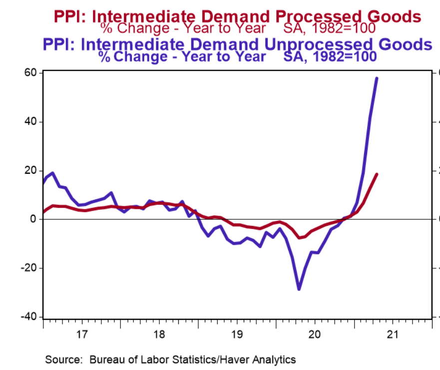
- The Producer Price Index (PPI) rose 0.6% in April, well above the consensus expected +0.3%. Producer prices are up 6.2% versus a year ago.
- Food prices rose 2.1% in April, while energy prices declined 2.4%. Producer prices excluding food and energy increased 0.7% in April and are up 4.1% in the past year.
- In the past year, prices for goods are up 10.7%, while prices for services have risen 4.0%. Private capital equipment prices increased 0.2% in April and are up 2.8% in the past year.
- Prices for intermediate processed goods rose 1.6% in April and are up 18.4% versus a year ago. Prices for intermediate unprocessed goods declined 3.8% in April but are up 57.6% versus a year ago.





Implications: For the last decade the Fed has talked about the difficulty of getting inflation to run at or above its long-term 2.0% target. Now they have their wish…and then some. The producer price index rose 0.6% in April, pushing the headline reading to 6.2% year-to-year, the highest in more than a decade. And prices are accelerating, up at a 7.5% annualized pace in the past six months. Three things are going on. First, a "base effect" is making year-to-year comparisons higher because producer prices fell steeply last April during the onset of COVID-19. This impact will start to ease (and potentially become a headwind) in the months ahead as prices rose coming out of last year's shutdowns. Second, extensive "supply-chain" issues are affecting the economy and leading to higher prices. Think the shortage in semiconductors for cars and trucks, as well as delays in meeting demand for household appliances. Third, the M2 measure of the money supply is up 24% versus a year ago. The first two factors, the base effect and supply-chain issues, are temporary; the third issue, the huge increase in the money supply, will affect inflation over the long term. The Fed seems to anticipate that, after peaking due to the base effect and supply-chain issues, inflation will subside later this year and into 2022. We think any waning in inflation later this year due to the first two factors will be temporary, as the increase in the money supply gains traction. In other words, the Fed thinks recent higher inflation is temporary, but we think any deceleration in inflation later this year is the temporary phenomenon. In terms of the details for April, prices for services led the overall index higher. The most notable increases were in transportations costs, airfare, and food retailing. The index for goods also increased, up 0.6% in April, with food up 2.1% in April as beef and pork prices both jumped more than 10%. Energy prices declined in April, but don't expect that to last. The shutdown of the Colonial pipeline in response to a cyber-attack has national average gas prices back above $3 per gallon for the first time since 2014, according to the American Automobile Association. Strip out the volatile food and energy components, and "core" prices rose 0.7% in April and are up 4.1% in the past year. In spite of all these increases, we don't expect the Fed to signal any change in the plan to keep short-term rates near zero for the foreseeable future. The Fed wants inflation to trend above the 2% target for a prolonged period, while the labor market – the other side of the Fed's dual mandate – also has to heal considerably further to get the Fed to seriously consider a move higher. In other news this morning, initial jobless claims declined 34,000 last week to 473,000 while continuing claims declined 45,000 to 3.655 million. These figures are consistent with continued job growth in May, although that job growth would be much faster in the absence of overly-generous unemployment benefits still available to many workers. As those additional benefits expire in September (or sooner, in some states) we expect job gains to accelerate.

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Apr-21	Mar-21	Feb-21	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**0.6%**	1.0%	0.5%	8.5%	7.5%	6.2%
Goods	**0.6%**	1.7%	1.4%	15.8%	13.9%	10.7%
- Ex Food & Energy	**1.0%**	0.9%	0.3%	9.2%	7.9%	4.7%
Services	**0.6%**	0.7%	0.1%	5.3%	4.5%	4.0%
Private Capital Equipment	**0.2%**	0.9%	0.3%	5.5%	3.8%	2.8%
Intermediate Demand						
Processed Goods	**1.6%**	4.0%	2.7%	38.5%	26.9%	18.4%
- Ex Food & Energy	**2.9%**	3.2%	1.8%	36.4%	24.1%	14.1%
Unprocessed Goods	**-3.8%**	9.3%	4.3%	44.8%	53.3%	57.6%
- Ex Food & Energy	**1.2%**	3.2%	-1.3%	12.8%	47.4%	34.0%
Services	**0.8%**	0.4%	0.7%	7.9%	7.1%	6.7%

Source: Bureau of Labor Statistics