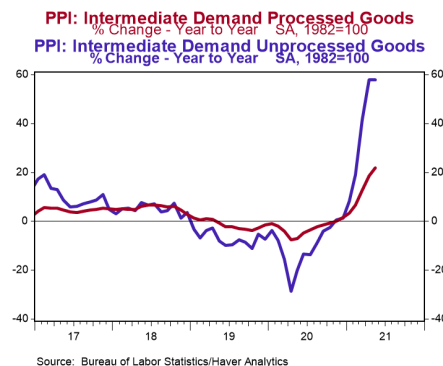
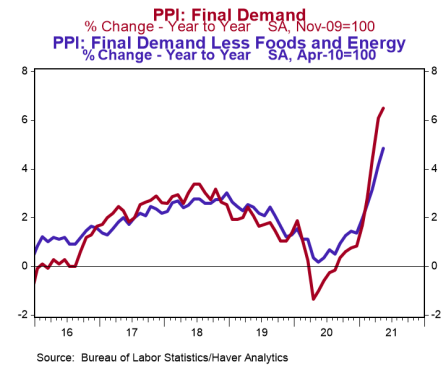


May PPI

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- The Producer Price Index (PPI) rose 0.8% in May, well above the consensus expected +0.5%. Producer prices are up 6.6% versus a year ago.
- Food prices rose 2.6% in May, while energy prices increased 2.2%. Producer prices excluding food and energy increased 0.7% in May and are up 4.8% in the past year.
- In the past year, prices for goods are up 11.1%, while prices for services have risen 4.5%. Private capital equipment prices increased 0.9% in May and are up 4.1% in the past year.
- Prices for intermediate processed goods rose 2.8% in May and are up 21.9% versus a year ago. Prices for intermediate unprocessed goods rose 8.4% in May and are up 57.9% versus a year ago.



Implications: Producer prices continue to rise at an outsized pace, as the decade-old discussion of whether the Fed can induce 2% inflation shifts to a question of if they can contain it. The producer price index once again outpaced expectations, rising 0.8% in May and pushing the headline reading to 6.6% year-to-year, the highest in more than a decade. And prices are accelerating, up at a 9.2% annualized pace in the past six months. While the Fed has continued the line that this inflation is “transitory,” it’s getting more difficult to play down rising numbers. Extensive “supply-chain” issues continue to be a significant pressure on prices, with no end in sight. From the shortage in semiconductors that has slowed production of everything from cars and trucks to household appliances, to difficulties finding labor to fill the record number of job openings in the US, supply simply hasn’t kept up with demand. And that demand is being supported by an M2 money supply that stands 30% above pre-COVID levels, leaving both consumer and corporate pockets flush with cash. While supply-chain issues are temporary, the huge increase in the money supply, will affect inflation over the long term. The Fed seems to anticipate that inflation will subside later this year and into 2022. We think any waning in inflation later this year will be temporary, as the increase in the money supply continues to gain traction. In terms of the details for May, prices for goods led the overall index higher, rising 1.5%. The most notable increases were in metals, autos, and food. The index for services also increased, up 0.6% in May. Margins for wholesalers and resellers (particularly in auto retailing, where a significant supply/demand mismatch paired with consumer cash to spend has created massive seller pricing power), costs for warehousing, and transportation rates all rising. Energy prices rebounded 2.2% in May following a similar decline in April. Stripping out the volatile food and energy components shows “core” prices rose 0.7% in May and are up 4.8% in the past year. In spite of inflation running well above the 2% target no matter how you cut it, 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. Discussions on tapering are likely to take center stage in the Q&A portion of Powell’s press conference following this week’s Fed statement tomorrow, but [as we noted in this week’s MMO](#), tapering is not tightening.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	May-21	Apr-21	Mar-21	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.8%	0.6%	1.0%	9.9%	9.2%	6.6%
Goods	1.5%	0.6%	1.7%	15.9%	16.3%	11.1%
- Ex Food & Energy	1.1%	1.0%	0.9%	12.4%	9.4%	5.9%
Services	0.6%	0.6%	0.7%	7.4%	6.0%	4.5%
Private Capital Equipment	0.9%	0.2%	0.9%	8.4%	5.5%	4.1%
Intermediate Demand						
Processed Goods	2.8%	1.6%	4.0%	38.9%	31.6%	21.9%
- Ex Food & Energy	2.3%	2.9%	3.2%	39.0%	29.4%	17.4%
Unprocessed Goods	8.4%	-3.8%	9.3%	68.5%	59.3%	57.9%
- Ex Food & Energy	9.3%	1.2%	3.2%	69.5%	66.4%	46.0%
Services	0.8%	0.8%	0.4%	8.1%	8.8%	7.9%

Source: Bureau of Labor Statistics