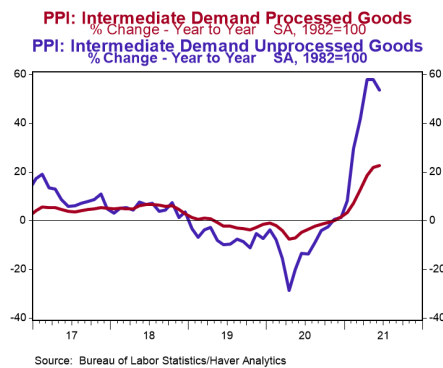
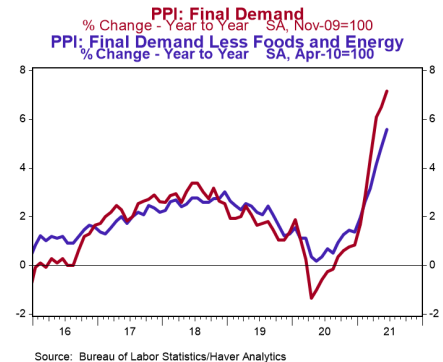


June PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

- The Producer Price Index (PPI) rose 1.0% in June, well above the consensus expected +0.6%. Producer prices are up 7.3% versus a year ago.
- Energy prices rose 2.1% in June, while food prices increased 0.8%. Producer prices excluding food and energy increased 1.0% in June and are up 5.6% in the past year.
- In the past year, prices for goods are up 11.7%, while prices for services have risen 5.2%. Private capital equipment prices increased 1.4% in June and are up 5.1% in the past year.
- Prices for intermediate processed goods rose 1.9% in June and are up 22.6% versus a year ago. Prices for intermediate unprocessed goods rose 2.6% in June and are up 54.1% versus a year ago.



Implications: Producer prices continued to surge higher in June, rising at the second fastest monthly pace (behind just January of this year) in more than a decade. While for years after the financial crisis the question from many was whether the Fed could induce 2% inflation, the question has now shifted to if they can keep prices from rising too far and too fast. The producer price index once again outpaced expectations, rising 1.0% in June and pushing the headline reading to 7.3% year-to-year, the highest in more than a decade. And prices are accelerating, up at a 10.6% 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 32% 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 is [what will drive inflation](#) over the long term. The Fed seems to anticipate that inflation will subside later this year and into 2022, but 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 June, prices for services led the overall index higher, rising 0.8% (while prices for goods rose a faster 1.2%, services represent more than twice the weighting of goods in the producer price index). The most notable increase came from final demand trade services, which tracks margins received by wholesalers and retailers. While prices for producer inputs are rising, they have the pricing power to pass on those costs, and more, to consumers. This is seen clearly in auto retailing, where a significant supply/demand mismatch paired with consumer cash to spend led margins 10.5% higher in June alone. Goods prices rose 1.2% in June, marking the fifth monthly rise of 1% or more in just the past six months. Energy prices jumped 2.1% in June while food prices rose 0.8%. Strip out these two typically volatile components shows “core” prices rose 1.0% in June and are up 5.6% 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.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jun-21	May-21	Apr-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	1.0%	0.8%	0.6%	9.8%	10.6%	7.3%
Goods	1.2%	1.5%	0.6%	13.8%	17.1%	11.7%
- Ex Food & Energy	1.0%	1.1%	1.0%	12.7%	10.4%	6.9%
Services	0.8%	0.6%	0.6%	8.0%	7.7%	5.2%
Private Capital Equipment	1.4%	0.9%	0.2%	10.4%	8.9%	5.1%
Intermediate Demand						
Processed Goods	1.9%	2.8%	1.6%	27.8%	32.8%	22.6%
- Ex Food & Energy	2.3%	2.3%	2.9%	34.2%	31.6%	19.5%
Unprocessed Goods	2.6%	8.4%	-3.8%	30.6%	60.8%	54.1%
- Ex Food & Energy	0.9%	9.3%	1.2%	55.0%	52.8%	45.9%
Services	1.1%	0.8%	0.8%	11.1%	9.5%	8.7%

Source: Bureau of Labor Statistics