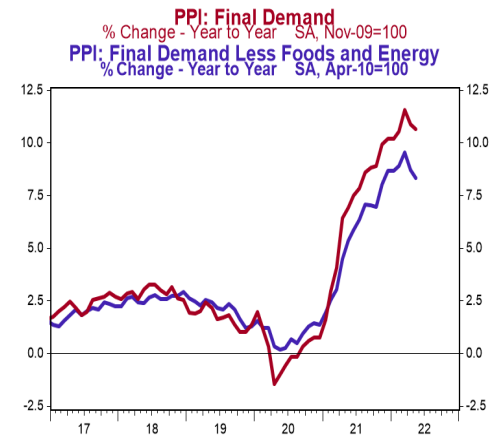


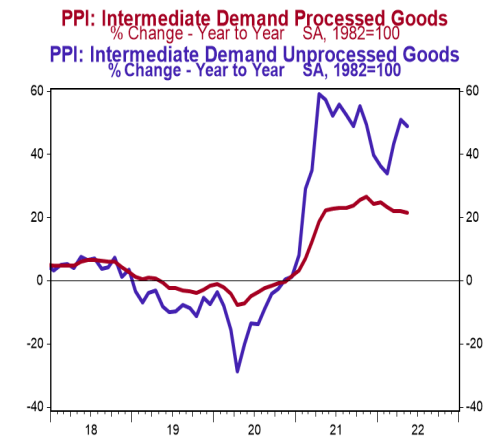
May PPI

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- The Producer Price Index (PPI) rose 0.8% in May, matching consensus expectations. Producer prices are up 10.8% versus a year ago.
- Energy prices rose 5.0% in May, while food prices were unchanged. Producer prices excluding food and energy rose 0.5% in May and are up 8.3% in the past year.
- In the past year, prices for goods are up 16.6%, while prices for services have risen 7.6%. Private capital equipment prices increased 1.1% in May and are up 12.4% in the past year.
- Prices for intermediate processed goods rose 2.3% in May and are up 21.6% versus a year ago. Prices for intermediate unprocessed goods increased 6.3% in May and are up 48.5% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: Bye-bye 50, hello 75+. Consumer prices rose 1.0% in May and today we got news that producer prices rose 0.8%. Although the 0.8% increase in the PPI matches consensus expectations, we now think the Federal Reserve is going to raise rates by at least 75 basis points tomorrow. Today’s Wall Street Journal story about the Fed reconsidering a faster pace of rate hikes is a major and intentional leak by Fed Chairman Jerome Powell that the Fed is ready to be bolder. Producer prices rose 0.8% in May and are now up 10.8% versus a year ago. That is a modest improvement from the 10.9% reading in April and 11.5% in March, but consistent with the Fed getting more aggressive about rate hikes. Looking at the details of the May report, goods prices led the overall index higher. Energy rose 5.0% and accounted for more than two-thirds of the rise in goods prices, while food prices were unchanged. Strip out the typically volatile food and energy categories and “core” producer prices rose by 0.5% in May, bringing the twelve-month increase to 8.3%. Within core prices, pressures were broad-based but led by a jump in costs for transportation and warehousing services. And price pressures remain elevated further back in the supply chain, as prices for processed and unprocessed goods for intermediate demand are up 21.6% and 48.5%, respectively, in the past year. In short, inflation continues to run near the highest pace in decades. This is what happens when you boost the money supply leaps and bounds faster than you can grow output. Fed Chair Jerome Powell was right in saying that the Fed needs to act “expeditiously” to address the damaging impacts of inflation, but a focus on raising interest rates and reducing the size of the Fed balance sheet are not enough by themselves. The Fed needs to focus on controlling the money supply. Dust off your Milton Friedman books, the lessons from the old sage are coming in handy.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	May-22	Apr-22	Mar-22	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.8%	0.4%	1.6%	11.4%	11.6%	10.8%
Goods	1.4%	1.3%	2.4%	22.4%	19.2%	16.6%
- Ex Food & Energy	0.7%	1.1%	1.1%	12.0%	10.2%	9.7%
Services	0.4%	-0.2%	1.2%	5.8%	7.5%	7.6%
Private Capital Equipment	1.1%	0.7%	0.9%	11.1%	14.5%	12.4%
Intermediate Demand						
Processed Goods	2.3%	2.0%	2.3%	29.7%	22.5%	21.6%
- Ex Food & Energy	1.7%	1.1%	0.9%	16.2%	13.2%	22.1%
Unprocessed Goods	6.3%	6.1%	2.7%	80.3%	56.5%	48.5%
- Ex Food & Energy	-4.2%	1.7%	9.2%	28.4%	15.2%	10.5%
Services	0.6%	0.7%	1.2%	10.7%	9.2%	7.7%

Source: Bureau of Labor Statistics