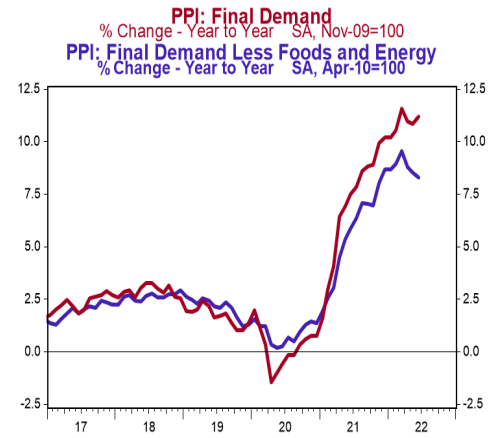


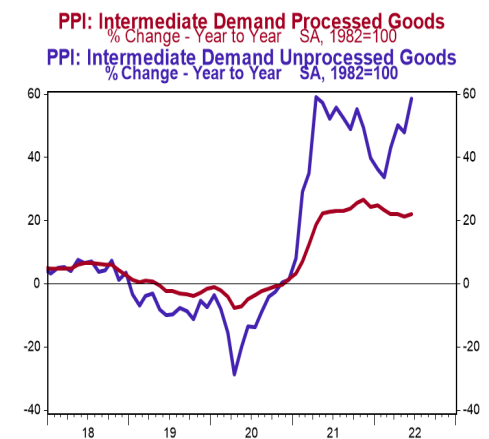
June PPI

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 1.1% in June, coming in above the consensus expected +0.8%. Producer prices are up 11.3% versus a year ago.
- Energy prices rose 10.0% in June, while food prices increased 0.1%. Producer prices excluding food and energy rose 0.4% in June and are up 8.2% in the past year.
- In the past year, prices for goods are up 17.9%, while prices for services have risen 7.7%. Private capital equipment prices increased 0.7% in June and are up 12.7% in the past year.
- Prices for intermediate processed goods rose 2.3% in June and are up 22.2% versus a year ago. Prices for intermediate unprocessed goods increased 9.5% in June and are up 58.0% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: Bye-bye 75, hello 100? Consumer prices rose 1.3% in June and today we got news that producer prices rose 1.1%. Readings from both inflation gauges came in above consensus expectations, and the futures markets are now pricing in that the Federal Reserve is going to raise rates by 100 basis points (bps) when they meet later this month. Two meetings ago the Fed moved by 50bps and said a 75 point move wasn't on their radar. Then last meeting they in fact moved by 75bps but played down suggestions that they would move at that rapid a pace into the future. Now the Fed has little choice but to acknowledge that they 1) have a flawed inflation model focused on the supply chain – rather than the far more important money supply – which has led them to significantly underappreciate the inflation pressures building in the economy, and they 2) remain behind the curve in remedying their prior mistakes. Producer prices rose 1.1% in June and are now up 11.3% versus a year ago. It's true that energy prices (+10.0% in June) were a major contributor to the monthly rise, but even stripping out the volatile food and energy categories shows “core” prices up 0.4% in June and 8.2% in the past year. Within core prices, pressures were broad-based but led by a jump in costs for trade services (margins received by wholesalers). And pressures remain elevated further back in the supply chain, as prices for processed and unprocessed goods for intermediate demand are up 22.2% and 58.0%, 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 by 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. In other news this morning, initial unemployment claims rose 9,000 last week to 244,000. Meanwhile, continuing claims fell 41,000 to 1.331 million. These numbers suggest continued healthy job growth in July.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Jun-22	May-22	Apr-22	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	1.1%	0.9%	0.4%	10.0%	13.2%	11.3%
Goods	2.4%	1.4%	1.3%	22.7%	25.3%	17.9%
- Ex Food & Energy	0.5%	0.6%	1.1%	9.1%	10.3%	9.1%
Services	0.4%	0.6%	-0.1%	3.5%	7.1%	7.7%
Private Capital Equipment	0.7%	1.0%	0.6%	9.4%	13.2%	12.7%
Intermediate Demand						
Processed Goods	2.3%	2.1%	2.1%	29.7%	28.3%	22.2%
- Ex Food & Energy	0.2%	1.6%	1.2%	12.2%	11.9%	22.9%
Unprocessed Goods	9.5%	6.2%	5.6%	127.7%	104.1%	58.0%
- Ex Food & Energy	-2.2%	-4.2%	1.9%	-17.0%	14.2%	7.1%
Services	0.0%	0.4%	0.7%	4.6%	6.9%	6.3%

Source: Bureau of Labor Statistics