

U.S. Data Review

- PPI: pronounced softness

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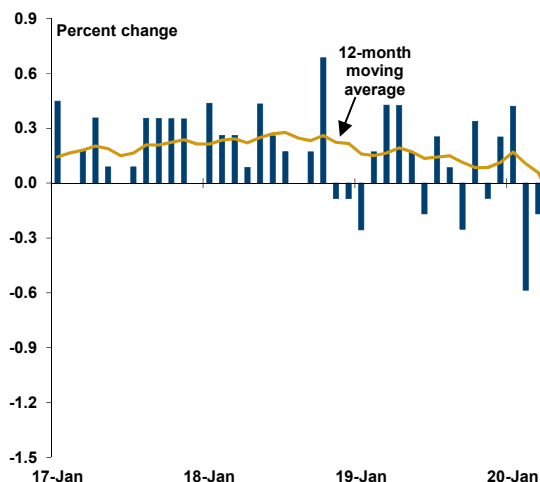
Producer Price Index

Analysts were expecting a soft reading on the PPI (consensus of -0.5 percent overall and -0.1 percent core), but results were far weaker (off 1.3 percent overall and down 0.9 percent in the core component). The April results left the year-over-year change in the headline index at -1.2 percent, only slightly better than the record low of -1.4 percent in 2015 (chart, left). The core component fell 0.3 percent on a year-over-year basis, its first reading in negative territory (chart, right). (The Bureau of Labor Statistics added services to the PPI in 2014, and thus the available history is short. The Bureau of Labor Statistics constructed a comparable headline series back to 2010, but the core component is available only back to late 2013. The core component in the PPI is defined as total less food, energy, and trade services. The trade services category is highly volatile and therefore excluded from the core index.)

The energy component led the retreat in the PPI with a month-to-month drop of 19.0 percent, but the food and core components also contributed with declines of 0.5 and 0.9 percent, respectively. In the core component, prices of consumer goods were unchanged, but prices of capital goods fell, as did prices of goods purchased by the government and destined for export. Export prices were especially soft, dropping 1.1 percent. Service prices included in the core component were quite weak, falling 1.2 percent. Trade services (i.e. services provided by vendors) rose 1.6 percent, but this volatile area is not included in the PPI definition of core. (The traditional definition of core prices – ex food and energy – fell 0.3 percent month-to-month and increased 0.6 percent year-over-year.)

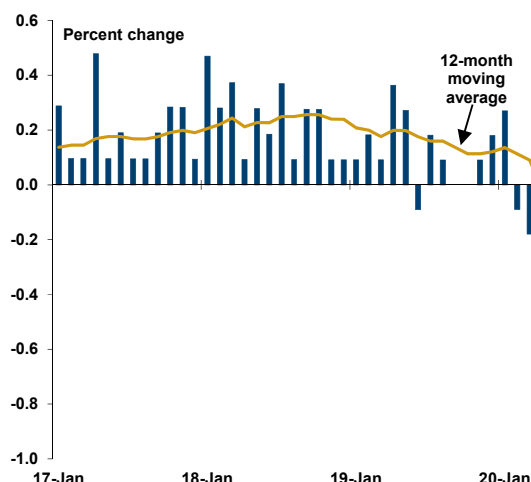
The PPI often moves erratically, and thus we do not place great weight on the measure when assessing the inflation environment. At the same time, we do not ignore the index, and the pronounced softness in April suggests a notably soft pricing environment.

Headline PPI



Source: Bureau of Labor Statistics via Haver Analytics

Core PPI*



* The core PPI excludes food, energy, and trade services.

Source: Bureau of Labor Statistics via Haver Analytics

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