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PPI

The core PPI rises a more-than-expected 0.4% in July (Consensus and Decision Economics: +0.2%), the unrounded figure just a hair shy of rounding up to a 0.5% gain. Tobacco prices contributed about a tenth of a percentage point to the month-on-month core figure (+2.8% m/m), while light truck prices also led individual category gains (+1.0% m/m)

The strong core print represents a 3.9% annualized rate over the past three months, accelerating on the 3.2% pace recorded over the prior three month period. The year-on-year rate climbed to 2.5%, the highest since June 2009.

The headline PPI, meanwhile, was also slightly firmer than expected at 0.2%, with food prices up 0.6% and energy prices down 0.6%.

Expectations for a deceleration in the core figure in the months ahead are supported by some tapering off of price pressures in the intermediate and crude goods categories. The core intermediate goods index rose only 0.2% from the month prior, the smallest gain in ten months. The six-month annualized change dipped to 8.5%, after a string of double-digit readings, and there was also clear slowing evident in the three-month change.

The crude materials index fell 1.2%, reflecting lower prices across both food and non-food categories. The ex-food and energy crude materials index did rise 0.6%, but continued to slow when viewed over a longer horizon, decelerating to 7.3% annualized over the most recent six month period, from 14.7%.

Overall the firm result is a bit troubling and may give some support to the Fed hawks, but given slow wage growth, a soft labor market, and moderation in commodity price gains, the FOMC majority will not be materially swayed by this report. The expectation is that pass-through to consumers would be limited in a weak demand environment, but CPI data will now be watched more intently.

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