

## July PPI, August UI Claims

### Wholesale Inflation Weak, Claims Very Low

- The Producer Price Index for Final Demand decreased by 0.1 percent in July.
- Initial Claims for Unemployment Insurance gained 3,000 for the week ending August 5, to hit 244,000.

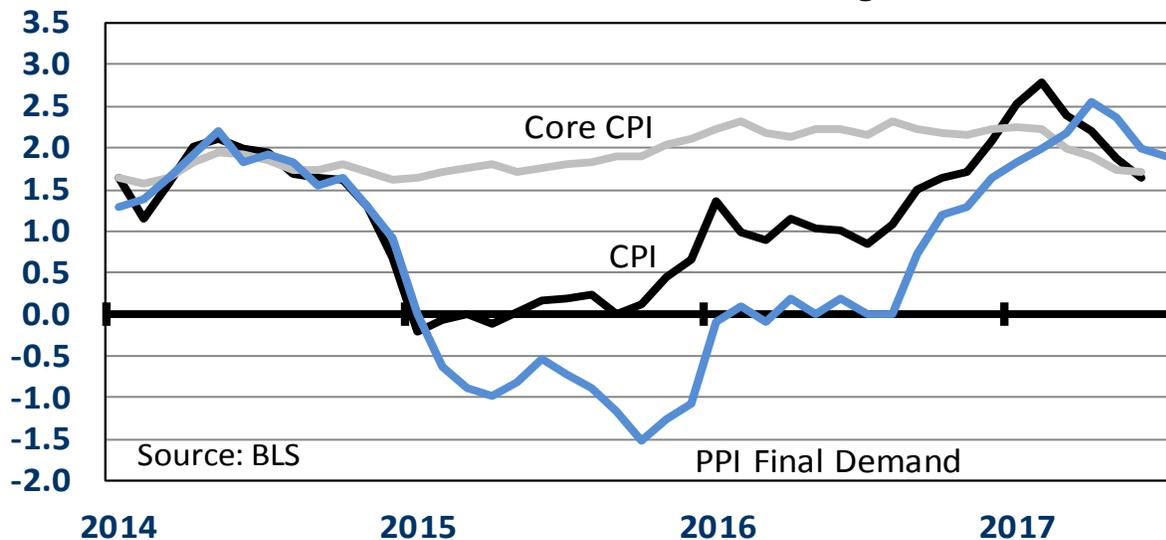
Producer price inflation remains weaker than expected, held down by energy and services. The PPI for final demand declined by 0.1 percent in July. Over the previous 12 months, the headline index was up 1.9 percent, well below the peak year-over-year rate of 2.5 percent in April. The energy sub-index declined by 0.3 percent for the month, held down by gasoline and natural gas prices. This was the fourth time in the last five months that the energy sub-index has declined. Firmer crude oil prices in August will end that trend. Outside of energy, prices for final demand services were also weak in July. Wholesalers operated on thinner margins in July. Transportation and warehousing prices also declined. Prices for intermediate demand were also soft, down 0.1 percent in July. These are prices for goods and services sold as inputs to production. With inflation weaker than expected, the Federal Reserve will have a harder time justifying increases to the fed funds rate. This is why we believe that there is downside risk to the expectation of four fed funds rate hikes between now and the end of 2018.

Initial claims for unemployment insurance gained 3,000 to hit 244,000 for the week ending August 5. Continuing claims dropped by 16,000, to reach 1,951,000 for the week ending July 29. The four-week moving averages for both series remain very low, indicating tight labor market conditions. The Job Openings and Labor Turnover Survey for June also showed tight labor market conditions. The job openings rate returned to the all-time high of 4 percent. The separations rate remains lower than the openings rate, staying at 3.6 percent in June.

**Market Reaction:** U.S. equity markets opened with losses. The yield on 10-Year Treasury bonds is down to 2.21 percent. NYMEX crude oil is up to \$49.52/barrel. Natural gas futures are up to \$2.89/mmbtu.

## Inflation Is Still Easing

### Year-Over-Year Percent Change



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