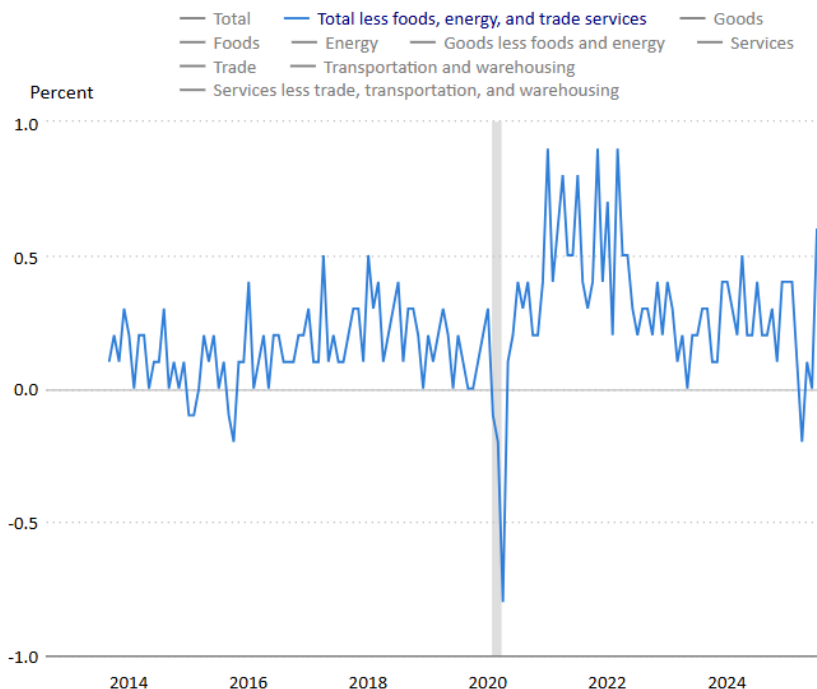


## The Day Ahead: Producer Prices Surge, Complicating The Rate Cut Outlook

There's no question that today's Producer Price Index came in surprisingly hot. Both the headline and core numbers were 0.9% vs forecasts of 0.2%. The biggest impact came from "trade services" which speaks to wholesalers and retailers marking up margins. There were similar anecdotes in other categories with BLS specifically calling out machinery/equipment, portfolio management, and vegetables. This was enough to erase a moderate overnight rally and cause some weakness in bonds, but it's not nearly as big of a reaction as we'd be seeing if Tuesday's CPI reported a similar beat. PPI is a much more volatile data series and the components that flow through to PCE inflation suggest a smaller spike in consumer inflation. Nonetheless, upward movement in consumer inflation is eroding some of the recent improvement in Fed rate cut expectations.

**PPI for final demand, 1-month percent change, seasonally adjusted**



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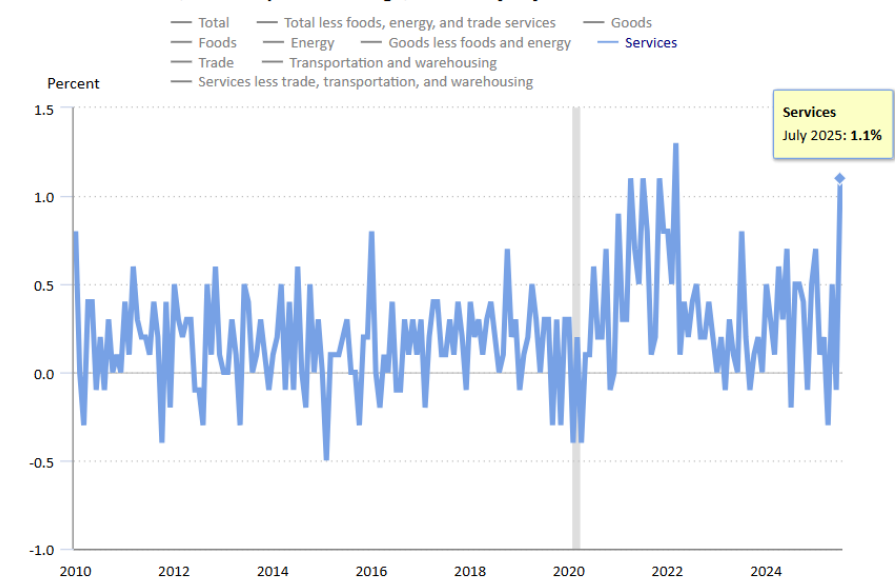
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PPI for final demand, 1-month percent change, seasonally adjusted



|                                                     | July  | June  | May   | April | March | July  |
|-----------------------------------------------------|-------|-------|-------|-------|-------|-------|
|                                                     | 2025  | 2025  | 2025  | 2025  | 2025  | 2025  |
|                                                     | MoM%  |       |       |       |       | YoY%  |
| PPI total final demand                              | 0.9%  | 0.0%  | 0.4%  | -0.2% | -0.2% | 3.3%  |
| PPI Components for Personal Consumption Expenditure |       |       |       |       |       |       |
| Airline passenger services                          | 1.0%  | -2.3% | -0.9% | -1.8% | -1.6% | 1.1%  |
| Portfolio management                                | 5.8%  | 2.1%  | -1.0% | -6.8% | 0.1%  | 13.3% |
| Physician care                                      | 0.0%  | 0.1%  | 0.2%  | 0.1%  | 0.3%  | 1.8%  |
| Home health, hospice care                           | 0.1%  | 0.2%  | -0.1% | 0.2%  | 0.0%  | 4.7%  |
| Hospital outpatient care                            | -0.5% | 0.9%  | -0.2% | 0.2%  | 0.5%  | 4.2%  |
| Hospital inpatient care                             | 0.1%  | 0.1%  | 0.2%  | 0.4%  | 0.7%  | 2.8%  |
| Nursing home care                                   | 0.1%  | 0.1%  | 0.2%  | 0.4%  | 0.3%  | 4.3%  |

