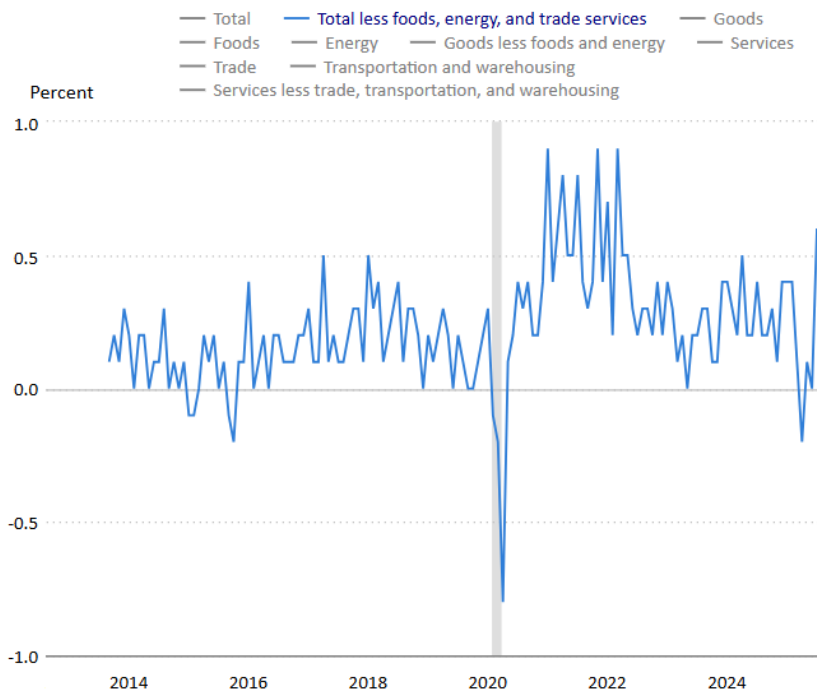


The Day Ahead: Producer Prices Surge, Complicating The Rate Cut Outlook

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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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%

