

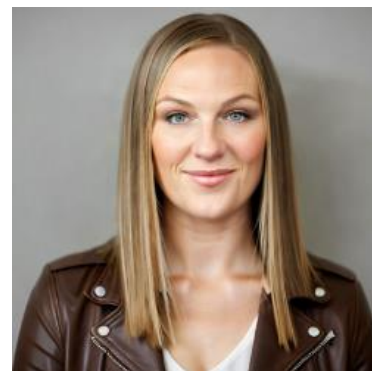
MBS & TREASURY MARKETS

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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% |

