

Producer Prices Surge on Rising Energy Costs

The April Producer Price Index (PPI) was much hotter than expected as the sustained increase in energy prices bleeds through to shipping and transportation costs. Final demand PPI climbed +1.4% last month, nearly tripling the median forecast and double the previous month gain with the sharpest single month advance in more than four years. The year-over-year headline was even more dramatic, rising from a revised +4.3% to +6.0%, twice the annual pace from just three months ago and the hottest reading since December 2022.

Final demand services rose +1.2%, the largest increase since March 2022, while final demand goods climbed +2.0% with over 40% due to a +15.6% rise in gasoline prices. PPI ex. food and energy jumped +1.0% in April, more than three times the median forecast and +5.2% year-over-year.

This is an unexpectedly ugly report. The rise in energy costs isn't a surprise, but the quicker than anticipated passthrough of shipping and related costs was. On a somewhat ironic note, wholesale egg prices were down nearly 50% for the month. Mostly everything else was higher.

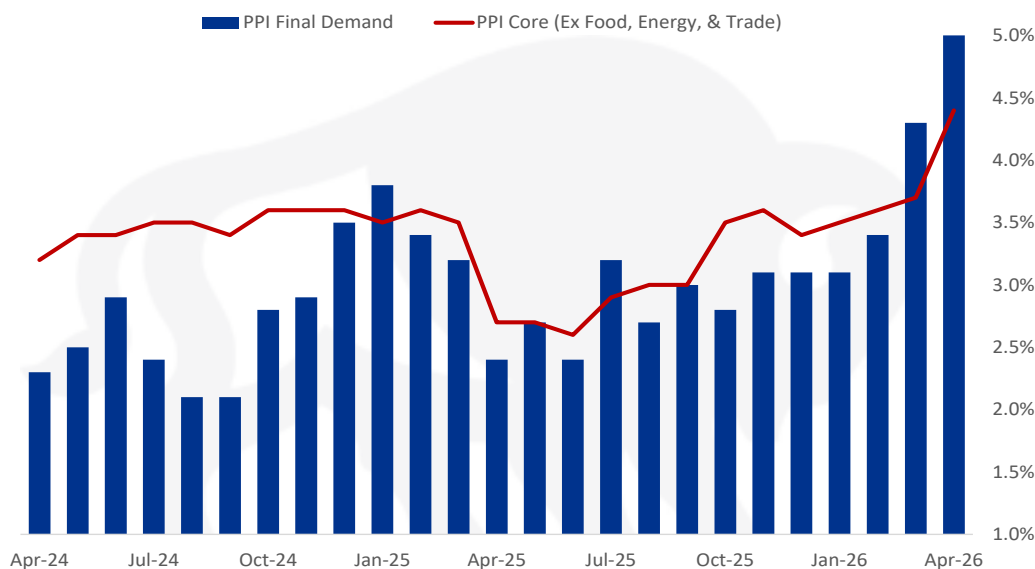
Energy prices are obviously driving the inflation narrative, keeping the conflict in the Strait on center stage. Over the past seven days, just 11 vessels have passed and WTI crude futures continue to trade above \$100 per barrel. Despite this morning's hot wholesale price data, the financial markets appear cautiously optimistic as President Trump and Chinese President Xi are set to meet in Beijing later today.

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Producer Price Index (Year-over-Year Percent Change)



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Source: Bureau of Labor Statistics

Fed officials are now likely to hold the overnight rate target steady at least through the end of the year. The futures market is actually indicating the next move will be an increase, although *tightening* monetary policy under the current administration would not be well received.

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April retail sales are scheduled for release tomorrow morning. This consumer report card will provide an early look at Q2 consumption, and by extension the economic impact of higher prices on demand.

Market Indications as of 8:56 A.M. Central Time

DOW	Down -226 to 49,535 (HIGH: 50,188)
NASDAQ	Down -8 to 26,080 (HIGH: 26,774)
S&P 500	Down -9 to 7,392 (HIGH: 7,413)
1-Yr T-bill	current yield 3.79%; opening yield 3.79%
2-Yr T-note	current yield 3.98%; opening yield 3.99%
3-Yr T-note	current yield 4.02%; opening yield 4.03%
5-Yr T-note	current yield 4.12%; opening yield 4.13%
10-Yr T-note	current yield 4.47%; opening yield 4.47%
30-Yr T-bond	current yield 5.03%; opening yield 5.03%

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