



# Economics Group

**Sam Bullard, Senior Economist**  
[sam.bullard@wellsfargo.com](mailto:sam.bullard@wellsfargo.com) • (704) 410-3280  
**Sarah House, Economist**  
[sarah.house@wellsfargo.com](mailto:sarah.house@wellsfargo.com) • (704) 410-3282

## Soft Producer Price Inflation Extends in July

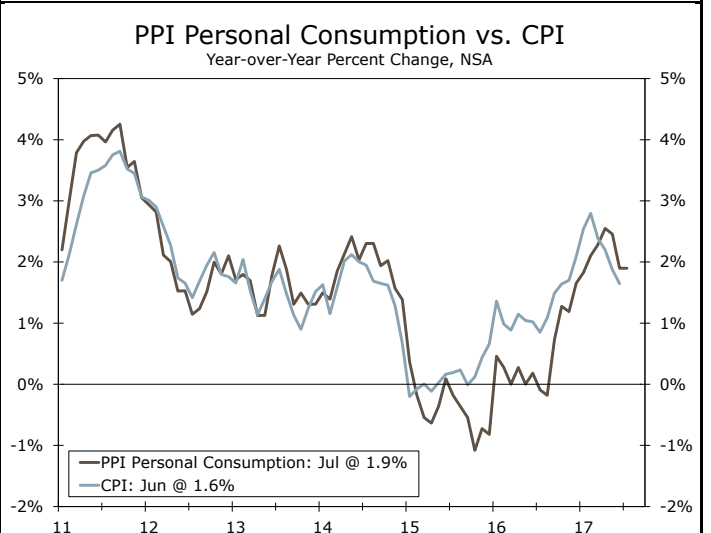
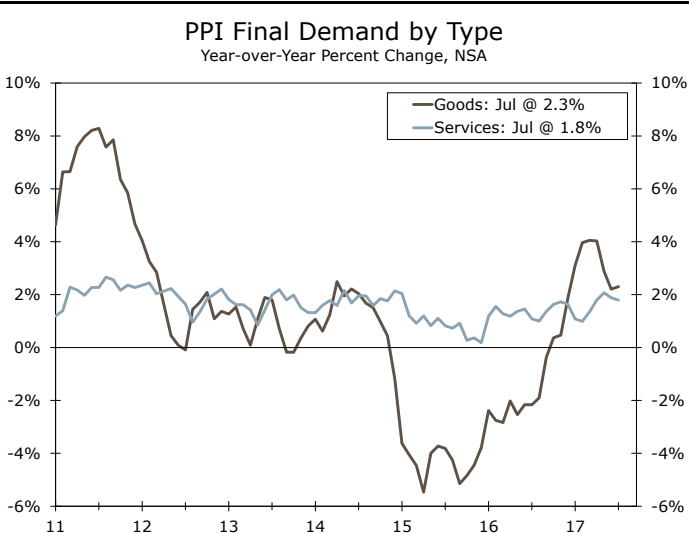
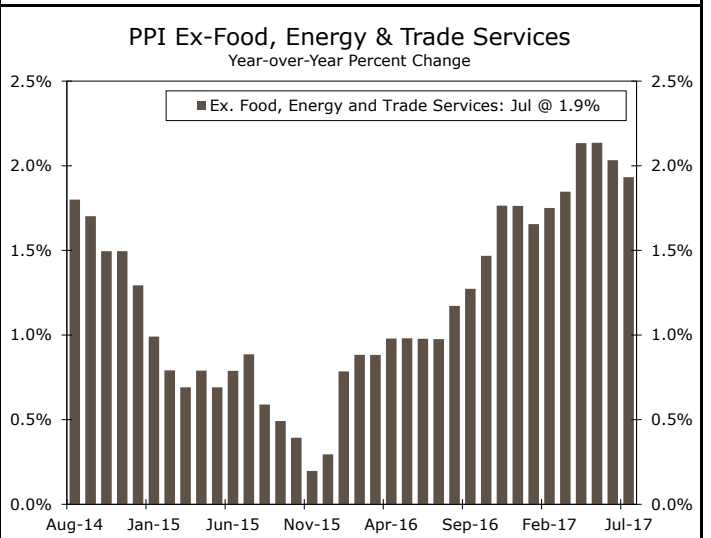
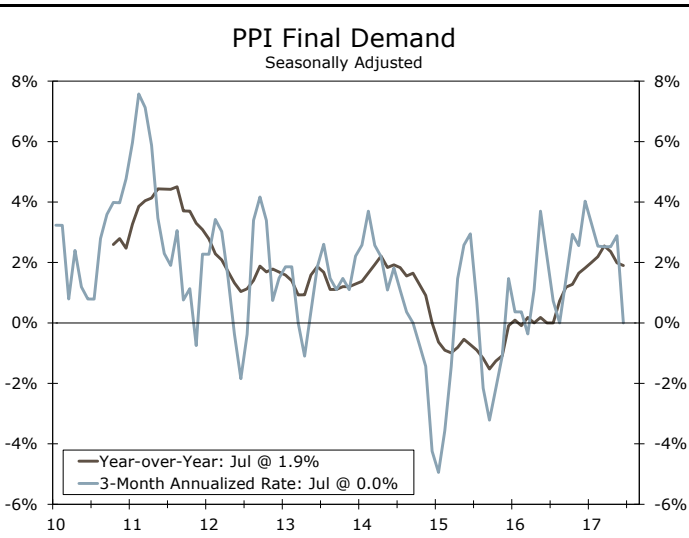
*On broad-based weakness, the PPI for final demand unexpectedly fell 0.1 percent in July—extending the recent decline in the year-over-year rate. This only heightens anticipation for tomorrow’s CPI update.*

### Alert: Chemical Spill

- Marking the first monthly decline since August 2016, the PPI for final demand unexpectedly contracted in July. Price declines were broad-based with lower readings in energy and services, while wholesale food prices remained flat.
- Services accounted for over 80 percent of the headline’s decline, with about 60 percent attributable to a 5.8 percent drop in margins for chemicals and allied products wholesaling.

### Outlook Remains Tame

- Our favorite measure of core producer prices, ex-energy, food and trade services, was flat on the month, taking the year-over-year rate down modestly to 1.9 percent. It is important to remember the PPI data can be volatile on a monthly basis. That said, today’s miss heightens the focus on the July CPI report. From our view, the health of economic fundamentals continues to point to a firming inflation environment in H2.



Source: U.S. Department of Labor and Wells Fargo Securities

## Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

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