USA: Producer Price Index Above Expectations; Initial Claims Somewhat Above Expectations; Estimating 0.31% for May Core PCE

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BOTTOM LINE: The producer price index (PPI) and PPI excluding food, energy, and trade services increased by more than expected in May, while their April growth rates were revised down. The core PPI increased by somewhat less than expected, and its April growth rate was revised down. The PPI components relevant for PCE were slightly stronger than our expectations. Based on details in the CPI and PPI reports, we estimate that the core PCE price index rose 0.31% in May (vs. our expectation of 0.28% before the PPI release), corresponding to a year-over-year rate of +3.38%. We estimate that the Dallas Fed trimmed mean PCE index rose 0.23% in May (unchanged from our expectation before the PPI release). Initial jobless claims rose to 229k in the week ended June 6, somewhat above expectations. We note that Memorial Day can increase the volatility of jobless claims.

US MAP:

Initial claims 0 (2, 0)

Continuing claims 0 (1, 0)

KEY NUMBERS:

PPI +1.1% (MoM) for May (+6.5% YoY) vs. GS +0.5%, median forecast +0.7%, prior revised +1.1%

PPI ex-food and energy +0.4% (MoM) for May (+4.9% YoY) vs. GS +0.4%, median forecast +0.5%, prior revised +0.7%

PPI ex-food, energy, and trade services +0.8% (MoM) for May (+5.1% YoY) vs. GS +0.4%, median forecast +0.4%, prior revised +0.5%

Initial claims 229k for the week ended June 6 vs. GS 220k, median forecast 220k, prior 225k

Continuing claims 1,795k for the week ended May 30 vs. median forecast 1,785k, prior revised 1,771k

MAIN POINTS:

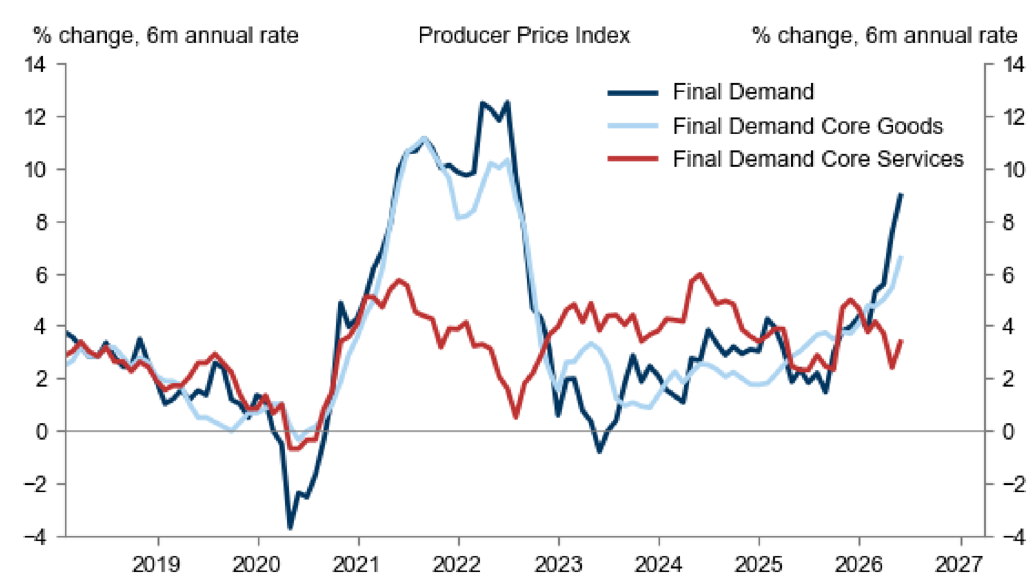
1. The producer price index (PPI) rose 1.1% in May, well above expectations. Energy prices (+10.7%) increased sharply in May as a result of higher oil prices from the Iran war. The core PPI and PPI excluding food, energy, and trade services increased by 0.4% and 0.8% in May, respectively. The April growth rates for the PPI (-0.3pp to +1.1%), core PPI (-0.3pp to +0.7%), and PPI excluding food, energy, and trade services (-0.1pp to +0.5%) were revised down. Transportation and warehousing

services prices rose 2.6% in May, and April growth was revised down by 1.2pp to 3.8%. Retailer margins declined by 1.1%. The 'old methodology' core PPI—finished goods excluding food and energy—increased by 0.3%. Core intermediate producer prices increased by 1.9%, and the prices of crude materials less food and energy increased by 2.6%.

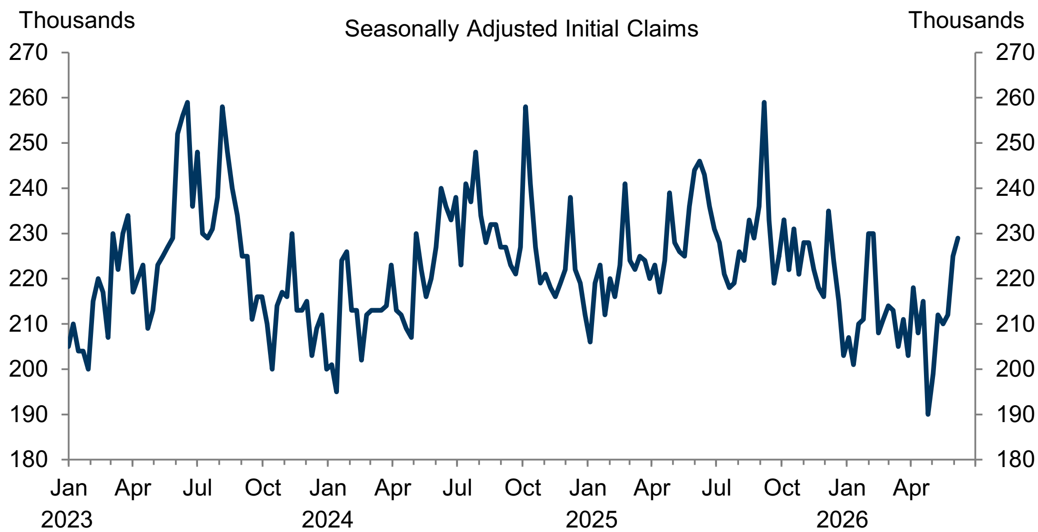
2. The PPI components relevant for PCE were stronger than our expectations. The domestic passenger airfares component increased by 2.4% in May, and the portfolio management component rose by 4.8%. Using PPI and interim PPI data (which we seasonally adjust), we estimate a 0.38% month-over-month increase in the PCE medical care services category for the month of May.

3. Based on details in the CPI and PPI reports, we estimate that the core PCE price index rose 0.31% in May (vs. our expectation of 0.28% before the PPI release), corresponding to a year-over-year rate of +3.38%. Additionally, we expect that the headline PCE price index increased 0.45% in May, or increased 4.04% from a year earlier. We estimate that market-based core PCE rose 0.22% in May and that the Dallas Fed trimmed mean PCE index rose 0.23% in May (unchanged from our expectation before the PPI release).

4. Initial jobless claims increased by 4k to 229k in the week ended June 6, somewhat above expectations. We note that Memorial Day can create seasonal adjustment difficulties that increase the volatility of jobless claims. The four-week moving average of claims rose 4k to 219k. Claims rose by 2k in Kentucky and declined by 7k in California and 2k in Iowa (all state-level data seasonally adjusted by GS). Nationwide continuing claims—the number of persons receiving benefits through standard programs—rose 24k to 1,795k in the week ended May 30, roughly in line with expectations.



Source: Goldman Sachs Global Investment Research, Department of Labor



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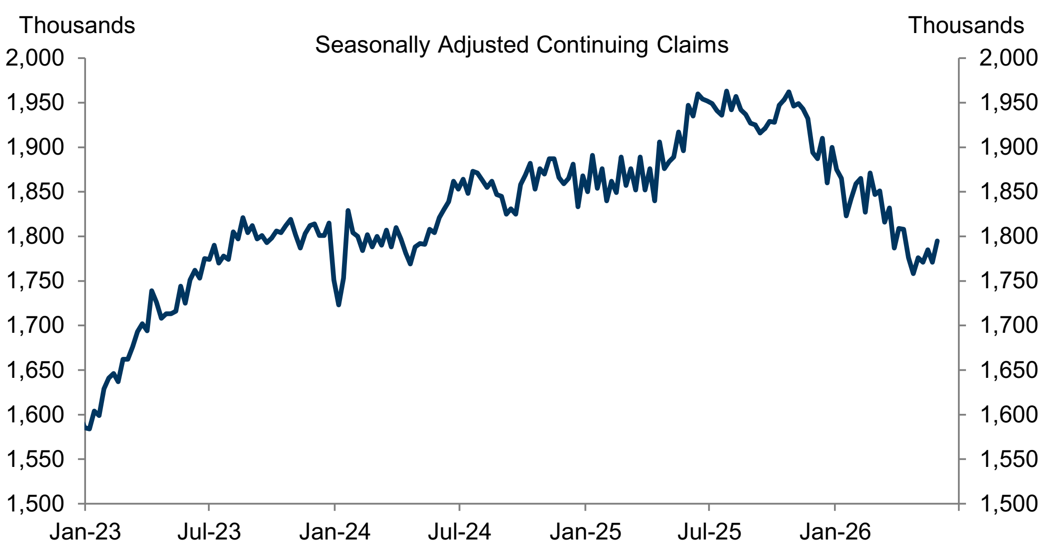

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