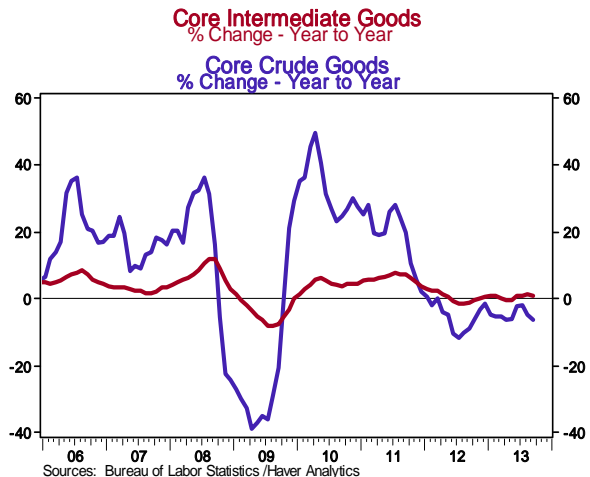
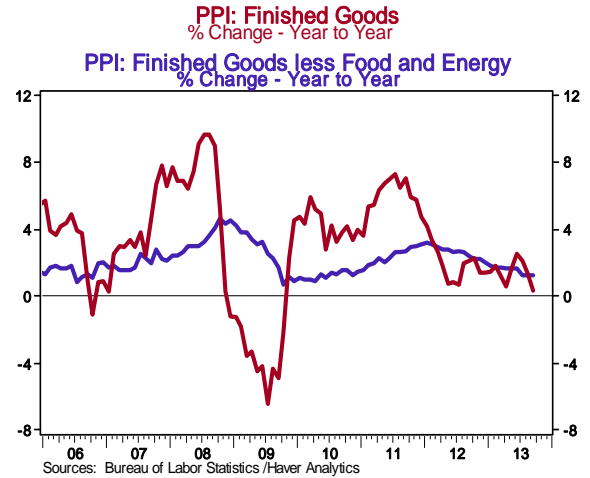


September PPI

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- The Producer Price Index (PPI) declined 0.1% in September, coming in below the consensus expected rise of 0.2%. Producer prices are up 0.3% versus a year ago.
- The decline in the overall PPI was due to food prices, which dropped 1.0%. Energy prices increased 0.5%. The “core” PPI, which excludes food and energy, rose 0.1% in September.
- Consumer goods prices declined 0.1% in September while capital equipment prices rose 0.3%. In the past year, consumer goods prices are up 0.1% while capital equipment prices are up 0.9%.
- Core intermediate goods prices increased 0.1% in September and are up 0.9% versus a year ago. Core crude prices declined 1.0% in September, and are down 6.4% versus a year ago.

Implications: We’ve been waiting a while for an acceleration in inflation and now it looks like we’re going to have to wait at least a bit longer. Overall producer prices declined a slight 0.1% in September, led by a 1% drop in food costs more than offsetting a 0.5% rise in energy and slight increases elsewhere. Producer prices are up only 0.3% in the past year, but up at a 1.6% annual rate in the past six months, which we think is closer to the underlying trend. “Core” producer prices, which exclude food and energy, are up 1.2% from a year ago. As a result, some analysts still say the Federal Reserve has room to continue quantitative easing at a pace of \$85 billion per month. We think this would be a mistake but the Fed is likely to continue QE full throttle anyhow until about March, when we expect it to finally start tapering its purchases. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth, but, for the time being, it won’t lift inflation either. In other news this morning, the Case-Shiller index, which measures home prices in the 20 largest metro areas, was up 0.9% in August (seasonally-adjusted) and is up 12.8% in the past year. Prices in all 20 areas increased in August and recent gains have been led by Las Vegas, San Diego, and Los Angeles. Prices should continue to increase in the year ahead, but not quite as quickly. The sharp gains in the past year are due to rapidly declining inventories. But, now that builders have increased the pace of construction, inventories should not drop as much and the market can clear without prices rising so fast.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Sep-13	Aug-13	Jul-13	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.1%	0.3%	0.0%	1.0%	1.6%	0.3%
<i>Ex Food and Energy</i>	0.1%	0.0%	0.1%	0.4%	0.9%	1.2%
Food	-1.0%	0.6%	0.0%	-1.6%	-0.9%	1.5%
Energy	0.5%	0.8%	-0.2%	4.4%	5.6%	-2.8%
Consumer Goods	-0.1%	0.4%	0.0%	1.0%	1.8%	0.1%
<i>Capital Equipment</i>	0.3%	-0.1%	0.0%	1.0%	1.0%	0.9%
Intermediate Goods	0.1%	0.0%	0.0%	0.8%	0.2%	-0.5%
<i>Ex Food & Energy</i>	0.1%	0.2%	-0.3%	0.0%	-0.6%	0.9%
Energy	0.3%	0.6%	0.3%	5.0%	3.3%	-4.3%
Crude Goods	0.5%	-2.7%	1.2%	-3.9%	1.0%	0.5%
<i>Ex Food & Energy</i>	-1.0%	-0.4%	-0.3%	-6.4%	-11.5%	-6.4%
Energy	2.0%	-2.7%	4.0%	13.9%	24.2%	9.8%

Source: Bureau of Labor Statistics