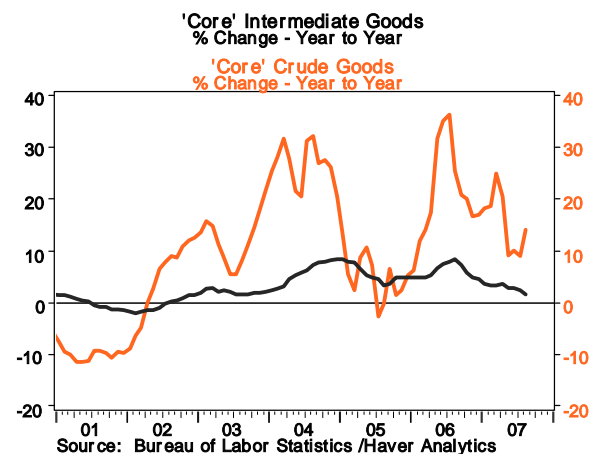
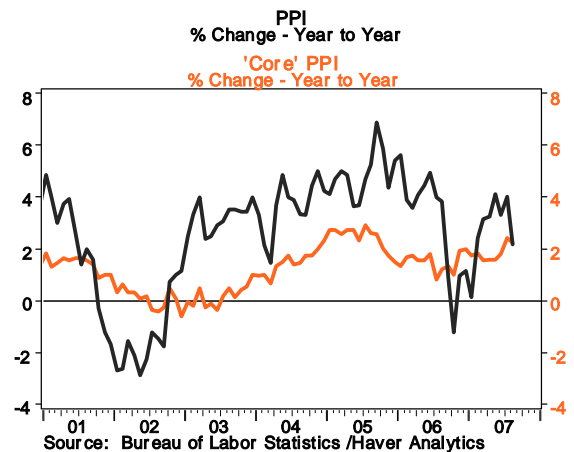


AUGUST PPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA
Economic Research Analyst – Trevor D. Scott

- The Producer Price Index (PPI) declined 1.4% in August versus a consensus expected dip of 0.3%. The PPI is up 2.1% in the past twelve months (seasonally adjusted).
- Almost all the PPI's decline in August was due to energy prices, which dropped 6.6%. The core PPI, which excludes food and energy prices, was up 0.2% versus a consensus expected gain of 0.1%. The core PPI is up 2.2% in the past year (seasonally adjusted).
- Consumer goods prices declined 1.8% in August and are up 2.3% in the past year. Capital equipment prices rose 0.1% and are up 2.0% in the past year.
- Intermediate goods prices declined 1.2% in August and are up 2.2% versus last year. Crude prices fell 3.0% and are up 7.0% versus a year ago.

Implications: Oil prices averaged about \$72/barrel in August but are up substantially since then, suggesting today's soft headline PPI number will be more than reversed next month. The drop in the overall PPI in August was the largest since October 2006 when the PPI dropped 1.5%. The October drop was fully reversed in November 2006, when the PPI rose 1.6%. Taking a long-term view, in the past five years, producer prices are up at a 3.6% annual rate, near the most since 1980-85, while core producer prices are up at a 1.6% rate, the most since 1991-96. In this environment, the Federal Reserve cannot afford to take its eye off inflation.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Aug-07	Jul-07	Jun-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-1.4%	0.6%	-0.2%	-4.0%	3.3%	2.1%
Ex Food and Energy	0.2%	0.1%	0.3%	2.5%	1.6%	2.2%
Food	-0.2%	-0.1%	-0.8%	-4.5%	1.5%	4.7%
Energy	-6.6%	2.5%	-1.1%	-19.7%	11.5%	-0.3%
Consumer Goods	-1.8%	0.7%	-0.4%	-5.8%	4.1%	2.3%
Capital Equipment	0.1%	0.1%	0.3%	1.6%	1.2%	2.0%
Intermediate Goods	-1.2%	0.6%	0.5%	-0.5%	6.5%	2.2%
Ex Food & Energy	-0.5%	0.2%	0.4%	0.7%	4.0%	1.6%
Energy	-3.7%	2.0%	0.3%	-6.0%	16.2%	3.0%
Crude Goods	-3.0%	1.2%	0.3%	-5.8%	7.6%	7.0%
Ex Food & Energy	1.3%	0.0%	-0.2%	4.7%	18.5%	13.8%
Energy	-5.6%	1.1%	0.6%	-15.1%	0.7%	-6.6%

Source: Bureau of Labor Statistics