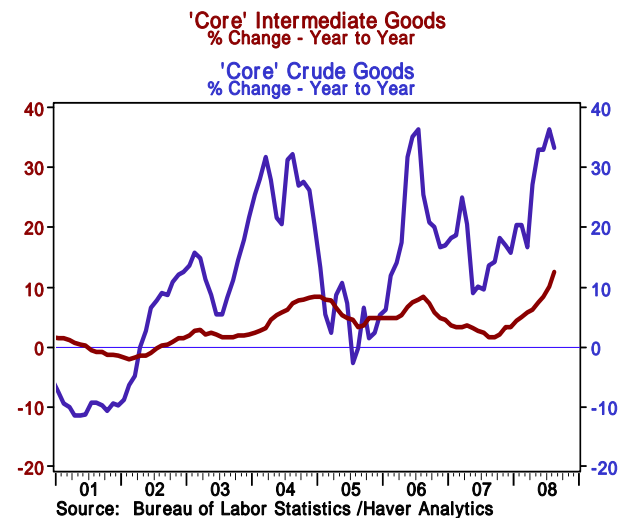
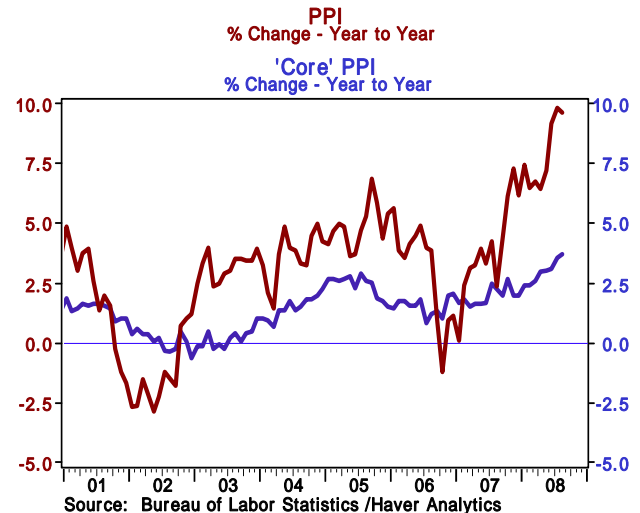


AUGUST PPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) declined 0.9% in August versus a consensus expected -0.5%. The PPI is up 9.6% in the past twelve months.
- All the drop in the PPI was due to energy, which fell 4.6% in August. The “core” PPI, which excludes food and energy, increased 0.2% in August and is up 3.6% versus last year, the most since 1991.
- Consumer goods prices declined 1.2% in August but are up 11.6% versus last year. Capital equipment prices rose 0.1% in August and are up 3.2% versus a year ago, the most since 1991.
- Intermediate goods prices fell 1.0% in August but are up 16.7% in the past year, the most since 1980. Crude prices plummeted 11.9% in August but are still up 38.2% versus last year.

Implications: Despite the drop in overall producer prices in August, inflation remains the primary economic problem in the US. The drop in prices in August was driven solely by energy prices, which are still up 27.4% versus last year. Meanwhile, “core” prices, which exclude food and energy, are accelerating with further increases in the pipeline. Core prices for finished goods are up 3.6% in the past year, the largest increase since 1991; core intermediate prices are up 12.5% in the past year, the most since 1980. Falling oil prices are not going to stop inflation, which is ultimately a result of loose monetary policy by the Federal Reserve. As oil prices fall, more cash will be spent on other items, leading to accelerating inflation for these goods and services. In other news this morning, business inventories increased 1.1% in July. This bolsters our view that real GDP is growing near a 2.5% annual rate in Q3. Higher inventories sometimes indicate slower growth in future quarters but the inventory-to-sales ratio remains low, suggesting no such problem.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Aug-08	Jul-08	Jun-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.9%	1.2%	1.8%	8.6%	9.6%	9.6%
Ex Food and Energy	0.2%	0.7%	0.2%	4.6%	4.3%	3.6%
Food	0.3%	0.3%	1.5%	8.8%	8.7%	9.2%
Energy	-4.6%	3.1%	6.0%	18.1%	25.1%	27.4%
Consumer Goods	-1.2%	1.2%	2.3%	9.7%	11.4%	11.6%
Capital Equipment	0.1%	0.8%	0.3%	4.8%	3.9%	3.2%
Intermediate Goods	-1.0%	2.7%	2.1%	16.3%	21.5%	16.7%
Ex Food & Energy	1.7%	2.0%	1.3%	21.7%	19.8%	12.5%
Energy	-8.2%	4.3%	5.0%	2.0%	28.4%	30.1%
Crude Goods	-11.9%	4.2%	3.7%	-18.1%	28.2%	38.2%
Ex Food & Energy	-1.9%	3.4%	-0.2%	5.2%	41.2%	33.5%
Energy	-19.4%	6.9%	5.4%	-32.1%	46.6%	59.1%

Source: Bureau of Labor Statistics