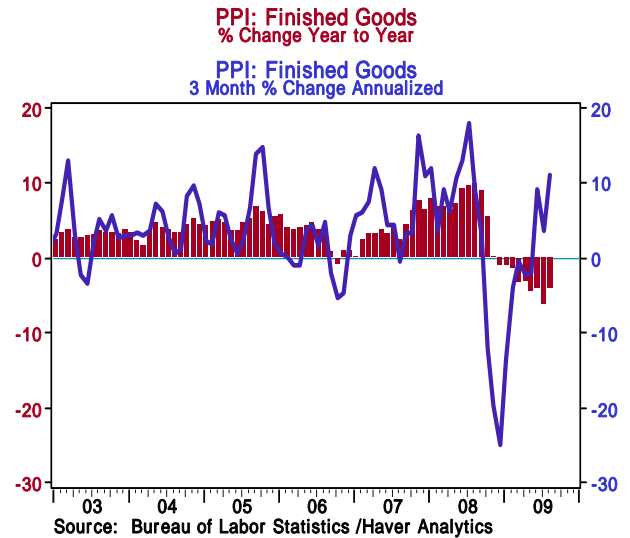


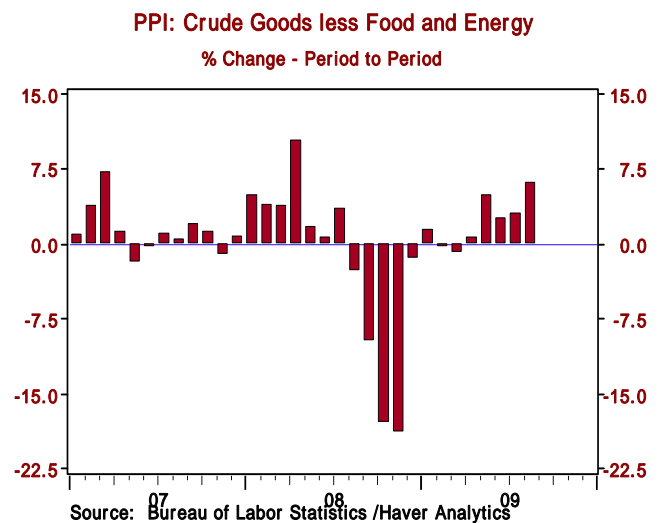
AUGUST PPI

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- The Producer Price Index (PPI) increased 1.7% in August, easily beating the consensus expected increase of 0.8%. The PPI is down 4.3% versus a year ago, but up at an 11.0% annual rate in the past three months.
- The August increase in the PPI was mostly due to energy, which increased 8.0%. The “core” PPI, which excludes food and energy, increased 0.2%.
- Consumer goods prices increased 2.3% in August and are up at a 14.4% annual rate in the past three months. Capital equipment prices increased 0.3% in August and are up at a 2.3% rate in the past three months.
- Intermediate goods prices increased 1.8% in August and are up at a 14.8% annual rate in the past three months. Crude prices rose 3.8% in August and are up at a 15.9% annual rate in the past three months.



Implications: Producer prices soared in August and the underlying trend is likely to remain upward. While the increase in August was mainly driven by an increase in energy prices, “core” measures of producer prices (excluding food and energy) show a wave of inflation on the way. Core prices for finished goods were up 0.2% in August, but core intermediate prices were up 0.6% and core crude prices were up 6%. In reaction to the financial crisis that started late last year, the Federal Reserve implemented the loosest monetary policy in the peacetime history of the United States. When monetary velocity was plummeting late last year this monetary policy was appropriate. Now that monetary velocity is rising again, with each passing month this extreme looseness becomes more and more out of place. The Fed should start signaling that the period of very low short-term interest rates will soon come to an end. In other news this morning, the Empire State Index, a measure of manufacturing in New York, rose to 18.9 in September from 12.1 in August. At 18.9, the index is the highest since late 2007.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Aug-09	Jul-09	Jun-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.7%	-0.9%	1.8%	11.0%	4.3%	-4.3%
Ex Food and Energy	0.2%	-0.1%	0.5%	2.4%	1.4%	2.3%
Food	0.4%	-1.5%	1.1%	0.0%	-1.7%	-3.9%
Energy	8.0%	-2.4%	6.6%	59.6%	19.8%	-21.3%
Consumer Goods	2.3%	-1.1%	2.2%	14.4%	5.5%	-5.9%
Capital Equipment	0.3%	-0.2%	0.5%	2.3%	0.6%	1.8%
Intermediate Goods	1.8%	-0.2%	1.9%	14.8%	3.5%	-12.3%
Ex Food & Energy	0.6%	0.2%	0.4%	4.8%	-0.3%	-8.2%
Energy	7.1%	-1.4%	8.9%	74.8%	21.8%	-24.5%
Crude Goods	3.8%	-4.5%	4.6%	15.9%	21.1%	-35.1%
Ex Food & Energy	6.0%	2.9%	2.6%	57.2%	37.0%	-29.9%
Energy	6.9%	-6.2%	10.9%	53.0%	47.8%	-45.7%

Source: Bureau of Labor Statistics