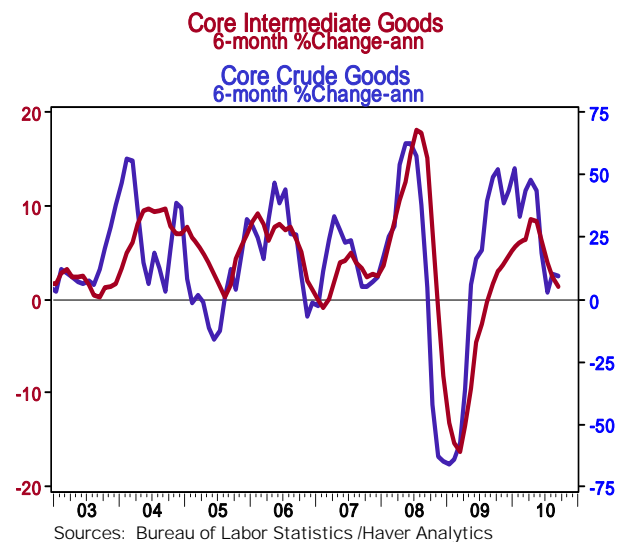
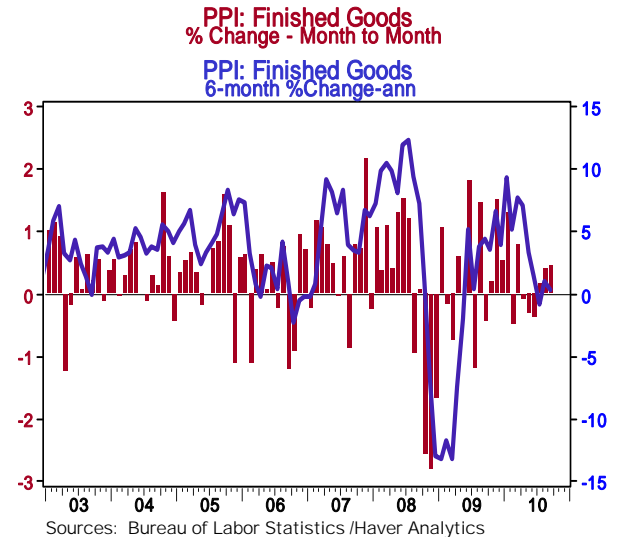


# SEPTEMBER PPI

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- The Producer Price Index (PPI) increased 0.4% in September, easily beating the consensus expected a gain of 0.1%. The PPI is up 4.0% versus a year ago.
- The September rise in the PPI was mostly due to food and energy prices. Food prices increased 1.2% while energy prices rose 0.5%. The “core” PPI, which excludes food and energy, was up 0.1%, matching consensus expectations.
- Consumer goods prices rose 0.5% in September and are up 5.3% versus last year. Capital equipment prices were up 0.1% in September and are up 0.7% in the past year.
- Intermediate goods prices increased 0.5% in September and are up 5.5% versus a year ago. Crude prices fell 0.5% in September but are still up 20.2% in the past twelve months.

**Implications:** Inflation increased much more than the consensus expected in September, hopefully giving the Federal Reserve pause about implementing a new round of “quantitative easing.” Today’s report further squashes the notion that the US is headed for deflation. While producer price inflation took a temporary breather in April, May, and June, it has bounced back over the past three months. Producer prices are now up 4% versus a year ago and, given commodity price increases so far in October, are likely to show further acceleration a month from now. Although the rise in prices in September was mostly due to food and energy, measures of “core” producer prices further back in the production process continue to signal trouble. Core intermediate goods prices are up 3.9% in the past year while core crude prices are up 25.3%. Over time, some of this should filter through to core prices for finished goods. In other recent inflation news, import prices declined 0.3% in September but are still up 3.5% in the past year. The decline in September was all due to oil. Excluding petroleum, import prices were up 0.3% in September and are up 2.5% in the past year. Export prices were up 0.6% in September and are up 5% versus a year ago. Excluding agriculture, export prices were up 0.3% in September and are up 4.3% versus last year. In our view, the Fed is holding rates too low for the current economic environment.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Sep-10</b>	<b>Aug-10</b>	<b>Jul-10</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <b>% Change</b>
<b>Finished Goods</b>	<b>0.4%</b>	0.4%	0.2%	4.1%	0.3%	4.0%
<b>Ex Food and Energy</b>	<b>0.1%</b>	0.1%	0.3%	2.1%	2.0%	1.6%
<b>Food</b>	<b>1.2%</b>	-0.3%	0.7%	6.6%	-2.8%	5.0%
<b>Energy</b>	<b>0.5%</b>	2.2%	-0.9%	7.4%	-1.6%	10.3%
<b>Consumer Goods</b>	<b>0.5%</b>	0.6%	0.1%	5.0%	0.0%	5.3%
<b>Capital Equipment</b>	<b>0.1%</b>	0.1%	0.3%	1.5%	1.4%	0.7%
<b>Intermediate Goods</b>	<b>0.5%</b>	0.3%	-0.4%	1.5%	1.1%	5.5%
<b>Ex Food &amp; Energy</b>	<b>0.2%</b>	0.1%	-0.4%	-0.7%	1.5%	3.9%
<b>Energy</b>	<b>0.7%</b>	1.3%	-0.7%	5.4%	-2.4%	11.2%
<b>Crude Goods</b>	<b>-0.5%</b>	2.3%	2.7%	19.5%	-3.1%	20.2%
<b>Ex Food &amp; Energy</b>	<b>5.5%</b>	4.1%	-1.4%	37.3%	9.7%	25.3%
<b>Energy</b>	<b>-8.8%</b>	0.5%	4.5%	-15.9%	-22.7%	14.4%

Source: Bureau of Labor Statistics