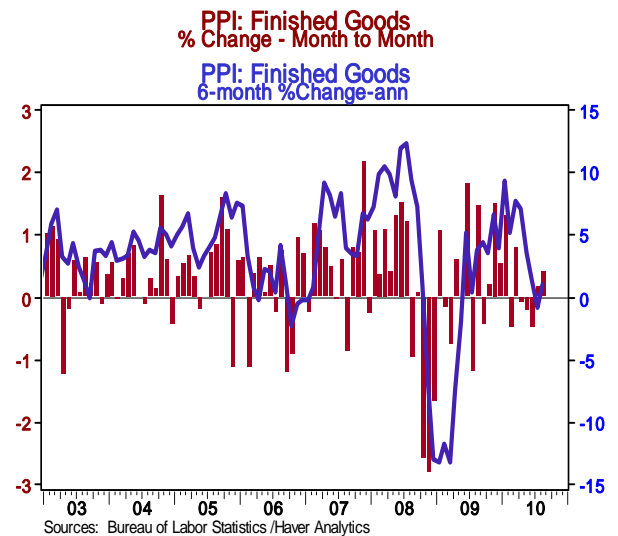


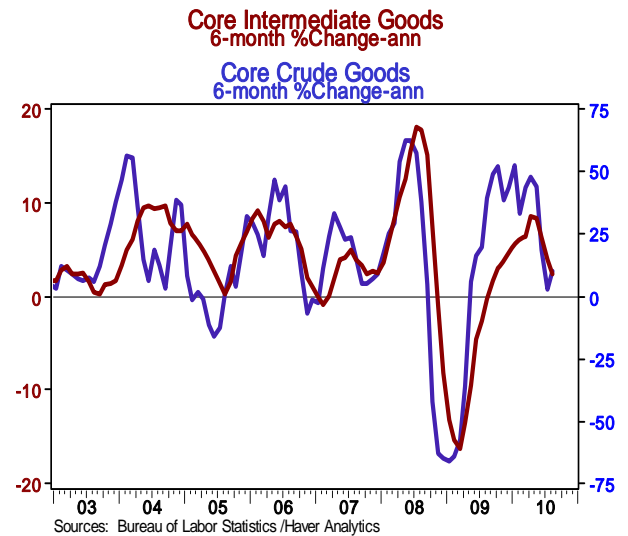
AUGUST PPI

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- The Producer Price Index (PPI) increased 0.4% in August, the consensus expected a gain of 0.3%. The PPI is up 3.1% versus a year ago.
- The August rise in the PPI was mostly due to energy, which increased 2.2%. Food prices fell 0.3%. The “core” PPI, which excludes food and energy, was up 0.1%, matching consensus expectations.
- Consumer goods prices rose 0.6% in August and are up 4.1% versus last year. Capital equipment prices were up 0.1% in August and are up 0.4% in the past year.
- Intermediate goods prices increased 0.3% in August and are up 5.0% versus a year ago. Crude prices increased 2.3% in August and are up 18.2% in the past twelve months.



Implications: After taking a few months off, inflation reared its ugly head again in August, undermining the notion that the US is headed for deflation. Producer prices took a breather in April, May, and June and the deflation story started to take hold again, as commodity prices fell and overall producer prices declined at a 3.3% annual rate. But producer prices have bounced back over the past two months and are now up 3.1% versus year ago. The increase in August was largely due to energy, which gained 2.2%, the first rise in energy prices since March. “Core” producer prices, which exclude food and energy, continue to increase, rising 0.1% in August and up 1.3% in the past year. Prices further up the production process were also higher, as intermediate goods prices increased 0.3% and crude prices increased 2.3%. With the economy continuing to recover, we anticipate the underlying inflation trend to be upward as the Fed is holding rates too low for the current environment. In other news this morning, new claims for unemployment insurance declined 3,000 last week to 450,000. Continuing claims for regular state benefits fell 84,000 to 4.49 million. After peaking less than a month ago at 488,000, the 4-week moving average of initial claims is now back down to 465,000. Look for more declines in the weeks ahead.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Aug-10	Jul-10	Jun-10	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.4%	0.2%	-0.5%	0.2%	1.0%	3.1%
<i>Ex Food and Energy</i>	0.1%	0.3%	0.1%	1.9%	2.0%	1.3%
Food	-0.3%	0.7%	-2.2%	-7.0%	-0.4%	3.8%
Energy	2.2%	-0.9%	-0.5%	3.2%	-0.1%	7.8%
Consumer Goods	0.6%	0.1%	-0.6%	0.2%	1.1%	4.1%
<i>Capital Equipment</i>	0.1%	0.3%	0.0%	1.3%	1.3%	0.4%
Intermediate Goods	0.3%	-0.4%	-0.9%	-3.9%	1.4%	5.0%
<i>Ex Food & Energy</i>	0.1%	-0.4%	-0.4%	-3.0%	2.4%	4.2%
Energy	1.3%	-0.7%	-2.6%	-8.0%	-2.2%	8.2%
Crude Goods	2.3%	2.7%	-2.4%	10.5%	1.5%	18.2%
<i>Ex Food & Energy</i>	4.1%	-1.4%	-4.8%	-9.2%	10.3%	21.1%
Energy	0.5%	4.5%	1.7%	29.7%	-9.8%	18.2%

Source: Bureau of Labor Statistics