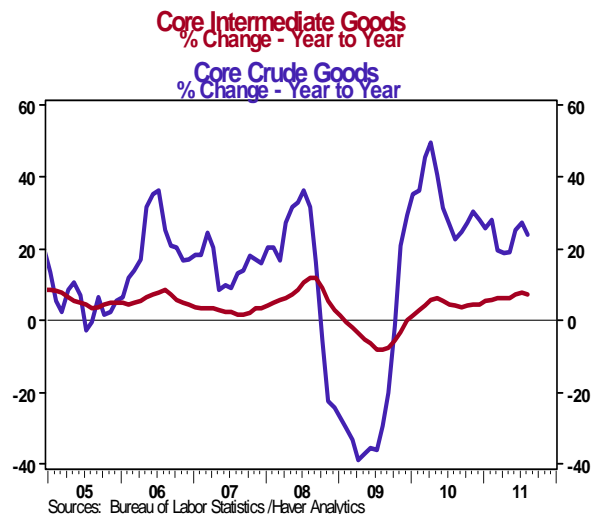
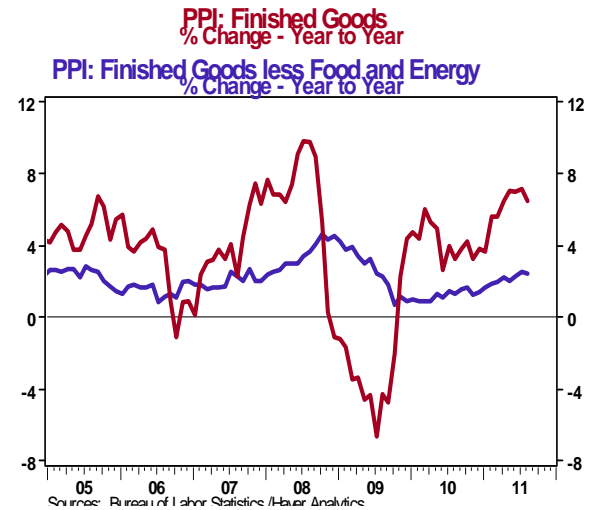


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August PPI

- The Producer Price Index (PPI) was unchanged in August, matching consensus expectations. Producer prices are up 6.5% versus a year ago.
- The lack of change in the overall PPI was largely due to a 1% drop in energy prices offsetting a 1.1% gain in food prices. The “core” PPI, which excludes food and energy, increased 0.1%.
- Consumer goods prices were flat in August but are up 8.2% versus last year. Capital equipment prices were down 0.1% in August but are up 1.6% in the past year.
- Core intermediate goods prices declined 0.1% in August but are up 7.5% versus a year ago. Core crude prices rose 1.6% in August and are up 24.2% in the past twelve months.

Implications: Lower energy prices have temporarily cooled overall producer price inflation. Although producer prices are up 6.5% in the past year they were unchanged in August and are down at a 0.6% annual rate in the past three months. However, these figures do not give the Federal Reserve extra room for easing. “Core” producer prices, which exclude food and energy, are up at a 3.4% annual rate in the past three months, making it tougher for the Fed to justify a third round of quantitative easing. Core prices for intermediate goods slipped 0.1% in August but are still up 7.5% in the past year; core crude prices increased 1.6% in August and are up 24.2% versus a year ago. Some of these large gains in core prices further back in the production pipeline will feed through to prices for finished goods. In other recent inflation news, import prices declined 0.4% in August but were up 0.3% excluding oil. Import prices are up 13% versus a year ago and up 5.5% excluding oil. Export prices increased 0.5% in August and 0.3% excluding agriculture. Export prices are up 9.6% from a year ago while prices ex-ag are up 5.5%. This is an environment that calls for monetary restraint, not looser money.



Producer Price Index All Data Seasonally Adjusted	Aug-11	Jul-11	Jun-11	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Finished Goods	0.0%	0.2%	-0.4%	-0.6%	3.4%	6.5%
Ex Food and Energy	0.1%	0.4%	0.3%	3.4%	3.2%	2.5%
Food	1.1%	0.6%	0.6%	9.5%	2.5%	8.4%
Energy	-1.0%	-0.6%	-2.8%	-16.4%	5.0%	16.3%
Consumer Goods	0.0%	0.1%	-0.6%	-1.6%	3.7%	8.2%
Capital Equipment	-0.1%	0.4%	0.3%	2.5%	2.7%	1.6%
Intermediate Goods	-0.5%	0.2%	0.0%	-0.8%	6.7%	10.6%
Ex Food & Energy	-0.1%	0.2%	0.3%	1.7%	5.8%	7.5%
Energy	-2.3%	0.4%	-0.8%	-10.3%	7.4%	19.1%
Crude Goods	0.2%	-1.2%	-0.6%	-6.2%	-5.6%	18.5%
Ex Food & Energy	1.6%	0.7%	1.1%	14.3%	6.1%	24.2%
Energy	-5.1%	-2.6%	-4.1%	-38.4%	-24.9%	5.6%

Source: Bureau of Labor Statistics