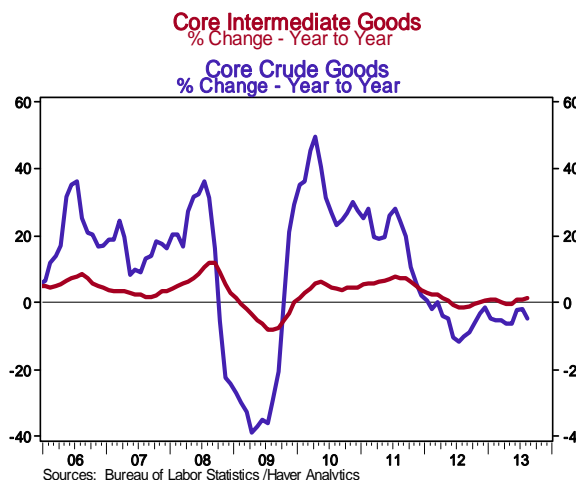
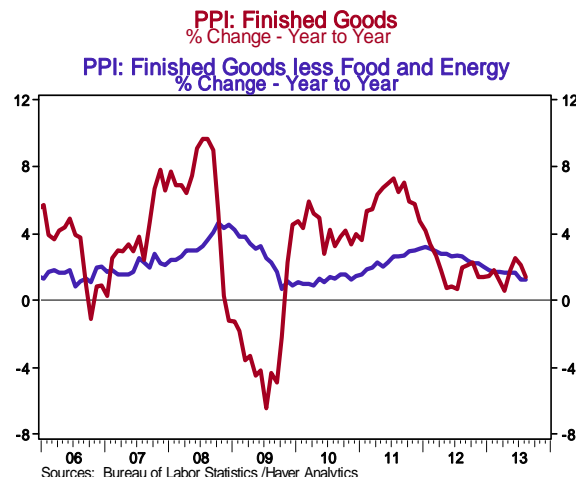


August PPI

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- The Producer Price Index (PPI) increased 0.3% in August, coming in slightly higher than the consensus expected 0.2%. Producer prices are up 1.4% versus a year ago.
- The increase in the overall PPI was due to energy prices, which rose 0.8%, and food prices which increased 0.6%. The “core” PPI, which excludes food and energy, was unchanged.
- Consumer goods prices increased 0.4% in August while capital equipment prices slipped 0.1%. In the past year, consumer goods prices are up 1.6% while capital equipment prices are up 0.6%.
- Core intermediate goods prices increased 0.2% in August and are up 1.3% versus a year ago. Core crude prices declined 0.4% in August, and are down 4.6% versus a year ago.

Implications: Producer prices are showing very early signs of an upward tilt to inflation, although it’s from a low base and it’s too early to tell whether this trend will continue uninterrupted. Producer prices are up only 1.4% in the past year, but up at a 4.4% annual rate in the past three months. Prices for intermediate goods are up only 0.5% compared to last year, but all of those gains have happened in the past three months, when they’ve grown at a 2.2% annual rate. The exception is crude goods, where prices are down at a 5.6% rate in the past three months versus up 1.5% in the past year. “Core” producer prices, which exclude food and energy, are up 1.1% from a year ago. As a result, some analysts still say the Federal Reserve has room to continue quantitative easing at a pace of \$85 billion per month. We think this would be a mistake and, at the meeting next week, we expect the Fed will announce a “taper” of QE and then be completely done with the program by March or April of next year. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth. In other recent news, still no sign of inflation in the trade data. Import prices were unchanged in August and are down 0.4% from a year ago. Excluding oil, import prices were down 0.2% in August and have declined 0.9% versus a year ago. Export prices dipped 0.5% in August and are down 1.1% in the past year. The downward moves in export prices have been led by farm products, but export prices are down even excluding agriculture, both in August and since last year.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Aug-13	Jul-13	Jun-13	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.3%	0.0%	0.8%	4.4%	0.5%	1.4%
<i>Ex Food and Energy</i>	0.0%	0.1%	0.2%	0.9%	1.1%	1.1%
Food	0.6%	0.0%	0.2%	3.4%	3.0%	2.6%
Energy	0.8%	-0.2%	2.9%	14.9%	-2.7%	0.7%
Consumer Goods	0.4%	0.0%	1.1%	5.9%	0.5%	1.6%
<i>Capital Equipment</i>	-0.1%	0.0%	0.1%	0.0%	0.6%	0.6%
Intermediate Goods	0.0%	0.0%	0.5%	2.2%	-2.4%	0.5%
<i>Ex Food & Energy</i>	0.2%	-0.3%	0.1%	-0.2%	-1.1%	1.3%
Energy	0.6%	0.3%	2.0%	12.1%	-7.3%	-1.3%
Crude Goods	-2.7%	1.2%	0.0%	-5.6%	-3.4%	1.5%
<i>Ex Food & Energy</i>	-0.4%	-0.3%	0.1%	-2.4%	-8.4%	-4.6%
Energy	-2.7%	4.0%	0.3%	6.2%	5.0%	10.3%

Source: Bureau of Labor Statistics