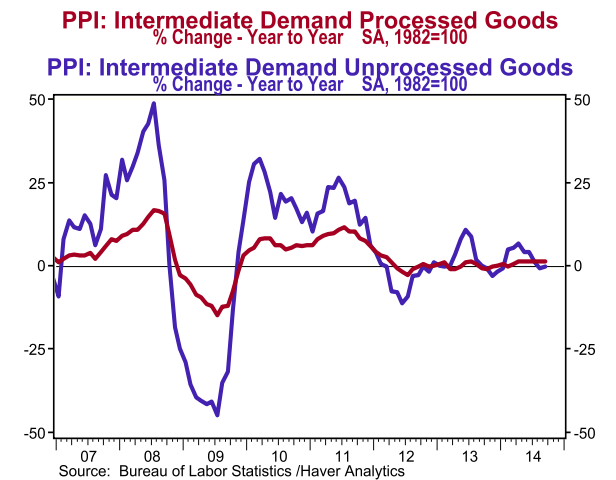
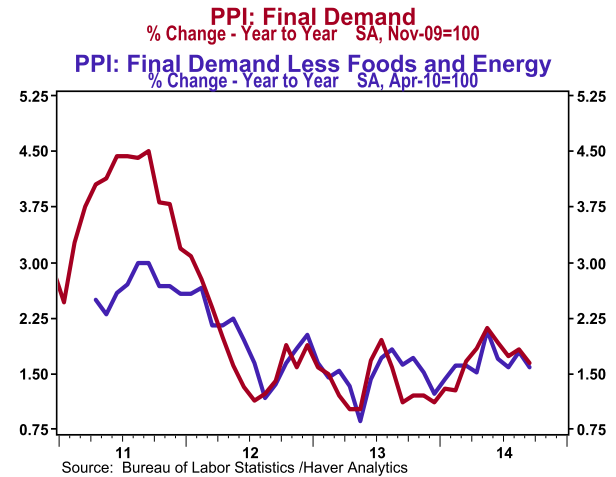


September PPI

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- The Producer Price Index (PPI) declined 0.1% in September, coming in below the consensus expected increase of 0.1%. Producer prices are up 1.6% versus a year ago.
- Food and energy prices, both down 0.7% in September, led the index lower. Producer prices excluding food and energy were unchanged in September.
- In the past year, prices for both goods and services are up 1.6%. Private capital equipment prices rose 0.3% in September and are up 1.0% in the past year.
- Prices for intermediate processed goods rose 0.1% in September, and are up 1.2% versus a year ago. Prices for intermediate unprocessed goods rose 0.6% in September, but are down 0.1% versus a year ago.

Implications: Producer prices declined 0.1% in September, the first decline for the index in over a year. Inflation is still in a long-term rising trend, but that process is going to be gradual, with many stops and starts along the way. As we noted in last week's [Monday Morning Outlook](#), booming energy production is a key reason why headline inflation hasn't moved up more quickly. Producer energy prices fell 0.7% in September and are down 0.7% from a year ago, a testament to fracking and horizontal drilling. Largely as a result, producer prices declined in September and are up a modest 1.6% from a year ago. Still, through the first nine months of 2014, producer prices are up at a 1.8% annual rate, well above the 1.1% rate over the same period in 2013. Prices further back in the production pipeline (intermediate demand) do not yet confirm a continued acceleration in inflation. Prices for intermediate processed goods are down at a 0.2% annual rate in the past three months, well below the 1.2% pace over the past year. Prices for unprocessed goods are down at a 20.0% annual rate in the past three months. But intermediate demand prices are highly volatile and we expect prices to move higher over the coming months. Taken as a whole, the trend in producer price inflation continues to move towards 2%, suggesting the Fed should continue on the path of ending quantitative easing later this month. 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. Loose monetary policy will eventually gain traction.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Sep-14	Aug-14	Jul-14	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.1%	0.0%	0.1%	0.0%	1.3%	1.6%
Goods	-0.2%	-0.3%	0.0%	-2.1%	0.7%	1.6%
- Ex Food & Energy	0.2%	0.0%	0.2%	1.5%	1.5%	1.8%
Services	-0.1%	0.3%	0.1%	1.1%	1.5%	1.6%
Private Capital Equipment	0.3%	0.0%	-0.2%	0.4%	0.8%	1.0%
Intermediate Demand						
Processed Goods	0.1%	-0.3%	0.1%	-0.2%	0.6%	1.2%
- Ex Food & Energy	0.2%	0.2%	0.3%	2.9%	1.8%	1.6%
Unprocessed Goods	0.6%	-3.3%	-2.7%	-20.0%	-10.8%	-0.1%
- Ex Food & Energy	0.5%	-0.7%	0.0%	-0.8%	-0.5%	1.4%
Services	0.0%	0.2%	0.3%	1.9%	1.1%	1.6%

Source: Bureau of Labor Statistics