First Trust DATAWATCH

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September PPI

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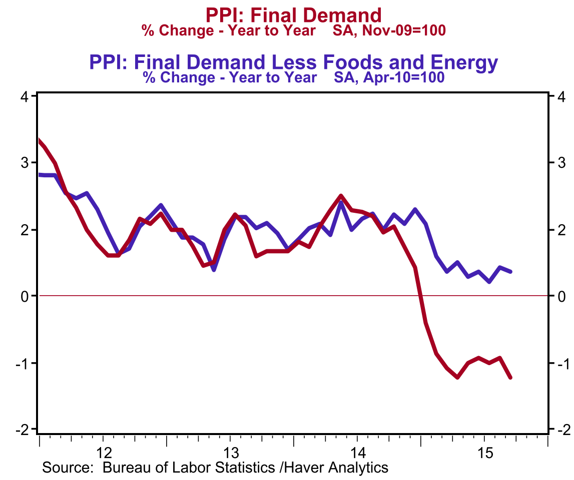
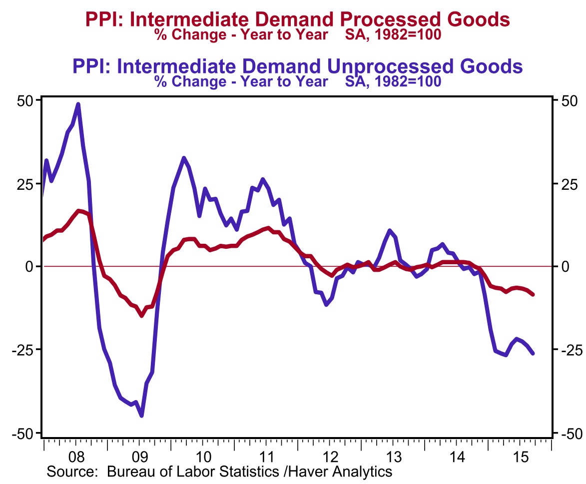
- The Producer Price Index (PPI) dropped 0.5% in September, coming in below the consensus expected decline of 0.2%. Producer prices are down 1.1% versus a year ago.
- The drop in producer prices in September was led by final demand goods, down 1.2%. Energy prices declined 5.9% in September while food prices dropped 0.8%. Producer prices excluding food and energy were down 0.3%.
- In the past year, prices for goods are down 5.1%, while prices for services are up 1.0%. Private capital equipment prices declined 0.2% in September but are up 0.2% in the past year.
- Prices for intermediate processed goods declined 1.5% in September and are down 8.2% versus a year ago. Prices for intermediate unprocessed goods declined 3.1% in September, and are down 26.1% versus a year ago.





Implications: No two ways about it, producer prices plunged in September. The 0.5% monthly decline was the largest single-month drop since January, and the second largest monthly decline in the series going back to late 2009. That said, roughly two-thirds of the drop can be attributed to a 5.9% decline in energy prices. Also, continuing the trend we've seen with other economic indicators - think ISM reports - there is a clear difference in activity between the goods sector and the (much larger) service sector. While goods prices are down 5.1% from a year ago, services prices are up 1.0% and have shown acceleration in recent months, up 1.1% annualized in the past six months and 1.5% annualized in the past three months. And if you take out just energy, prices for final demand goods are up 0.6% in the past year. In other words, once energy prices stabilize, producer prices will start to move higher. The Fed has reiterated that falling energy prices are a transitory factor. So, in theory, these declines should not play a significant role when they decide whether to raise rates later this year. Core producer prices, which take out both the volatile food and energy components, declined 0.3% in September but are up 0.8% in the past year. In other words, we are not in a persistent deflationary environment. We'd like to see the Fed raise rates and think a rate hike in December remains possible. Holding short-term rates near zero distorts the nature and timing of economic and financial activity and our economy will eventually pay a price for that. Once energy prices stop falling, overall consumer inflation measures will hit the Fed's 2% target within a year. However, right now, the market expects the Fed to hold off on the first rate hike until March and today's report gives the Fed plenty of ammunition to meet this expectation.

Producer Price Index *All Data Seasonally Adjusted*	Sep-15	Aug-15	Jul-15	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	**-0.5%**	0.0%	0.2%	-1.4%	0.5%	-1.1%
Goods	**-1.2%**	-0.6%	-0.1%	-7.4%	-1.1%	-5.1%
- Ex Food & Energy	**0.0%**	-0.2%	0.0%	-0.7%	0.5%	0.2%
Services	**-0.4%**	0.4%	0.4%	1.5%	1.1%	1.0%
Private Capital Equipment	**-0.2%**	-0.3%	0.4%	-0.4%	-0.6%	0.2%
Intermediate Demand						
Processed Goods	**-1.5%**	-0.6%	-0.2%	-8.5%	-3.0%	-8.2%
- Ex Food & Energy	**-0.6%**	-0.2%	0.1%	-3.1%	-2.3%	-4.1%
Unprocessed Goods	**-3.1%**	-4.4%	-2.9%	-34.7%	-11.3%	-26.1%
- Ex Food & Energy	**-1.1%**	-4.8%	-0.5%	-22.9%	-12.2%	-17.5%
Services	**-0.7%**	0.7%	0.2%	0.7%	0.9%	1.2%

Source: Bureau of Labor Statistics