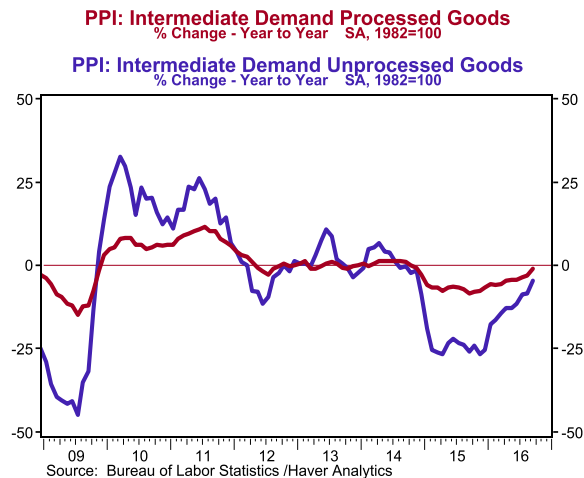
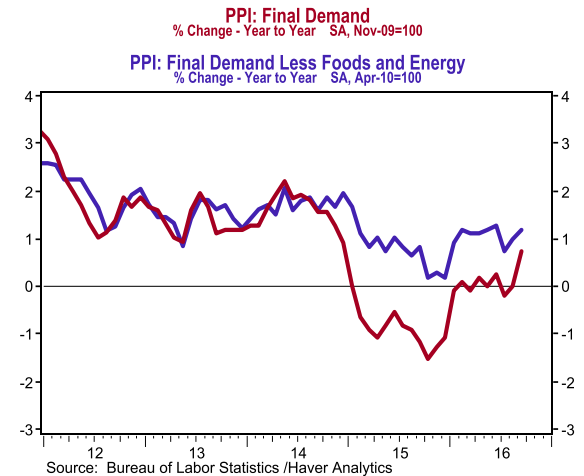


September PPI

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- The Producer Price Index (PPI) rose 0.3% in September, coming in above the consensus expected rise of 0.2%. Producer prices are up 0.7% versus a year ago.
- Energy prices increased 2.5% in September, while food prices rose 0.5%. Producer prices excluding food and energy rose 0.2%.
- In the past year, prices for services are up 1.3%, while prices for goods are down 0.4%. Private capital equipment prices increased 0.2% in September and are up 1.4% in the past year.
- Prices for intermediate processed goods rose 0.5% in September but are down 1.2% versus a year ago. Prices for intermediate unprocessed goods increased 1.3% in September but are down 4.8% versus a year ago.



Implications: Producer prices rose nearly across the board in September, as energy prices led the index higher. Energy prices jumped 2.5% after two months of declines, accounting for nearly half of September’s 0.7% rise in goods prices, while food prices also moved higher, rising 0.5%. But even stripping out the upward pressure from these volatile categories, “core” producer prices rose 0.2% in September and are up 1.2% in the past year. This modest 1.2% pace remains below the Fed’s 2% inflation target, but represents a pickup from the 0.7% rise through the twelve months ending September 2015. And overall producer prices, up 0.7% in the past year, are showing the largest twelve month gain since late 2014. Service prices rose 0.1% in September and are up 1.3% in the past year, more than offsetting the 0.4% decline in goods prices over the same period. September’s rise in service prices was led by securities brokerage, dealing, and investment advice (perhaps due to the DOL rule on retirement accounts), while airline passenger services and hospital care also moved higher. The Fed isn’t likely to be swayed either way by today’s report on producer prices. Assuming the Fed holds off on action in November (they meet less than a week before the election), they will still have a hand full of inflation and employment reports before the December 14th announcement.

We believe that, barring any significant surprises to the downside, the Fed has their eyes set on a December hike. In other recent inflation news, import prices rose 0.1% in September but are down 1.1% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 0.8% from a year ago even excluding petroleum. Export prices increased 0.3% in September but are down 1.5% from a year ago. Nonagricultural export prices rose 0.4% in September and have increased in six of the past seven months. We expect this measure to continue pushing higher in the months ahead, putting upward pressure on overall export prices.

Producer Price Index <i>All Data Seasonally Adjusted</i>	Sep-16	Aug-16	Jul-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.3%	0.0%	-0.4%	-0.4%	2.0%	0.7%
Goods	0.7%	-0.4%	-0.4%	-0.4%	3.8%	-0.4%
- Ex Food & Energy	0.3%	0.1%	0.0%	1.5%	1.8%	0.9%
Services	0.1%	0.1%	-0.3%	-0.4%	1.1%	1.3%
Private Capital Equipment	0.2%	-0.4%	-0.6%	-3.2%	-0.5%	1.4%
Intermediate Demand						
Processed Goods	0.5%	-0.1%	0.2%	2.4%	5.4%	-1.2%
- Ex Food & Energy	0.3%	0.3%	0.1%	2.6%	2.8%	-0.2%
Unprocessed Goods	1.3%	-2.8%	-0.4%	-7.4%	10.5%	-4.8%
- Ex Food & Energy	-1.4%	0.8%	-0.8%	-5.6%	11.3%	0.9%
Services	0.4%	0.0%	0.3%	2.9%	2.3%	2.4%

Source: Bureau of Labor Statistics

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.