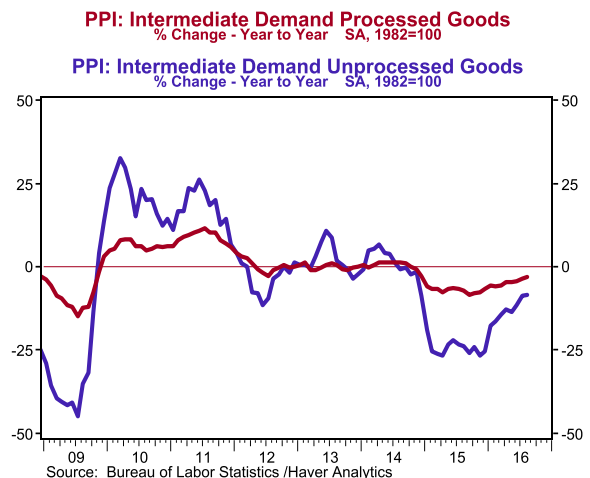
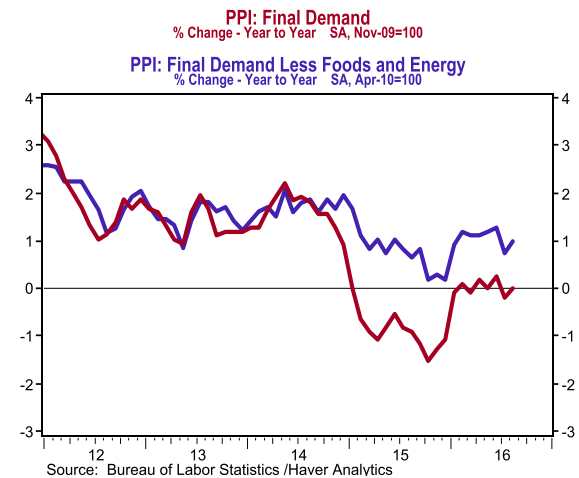


# August PPI

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- The Producer Price Index (PPI) was unchanged in August, coming in slightly below the consensus expected rise of 0.1%. Producer prices are also unchanged versus a year ago.
- A 0.4% decline in prices for final demand goods was offset by a 0.1% increase for final demand services. Energy prices fell 0.8% in August, while food prices declined 1.6%. Producer prices excluding food and energy rose 0.1%.
- In the past year, prices for goods are down 2.0%, while prices for services are up 1.1%. Private capital equipment prices fell 0.4% in August but are up 1.3% in the past year.
- Prices for intermediate processed goods declined 0.1% in August and are down 3.0% versus a year ago. Prices for intermediate unprocessed goods declined 2.8% in August and are down 8.1% versus a year ago.



**Implications:** The Fed isn't likely to be swayed either way by today's report on producer prices. After July's declines, producer prices were unchanged in August as falling prices for food, energy, and trade services (think margins received by wholesalers and retailers) were offset by rising prices for a broad range of services. Excluding the drop in the volatile food and energy indexes, goods prices rose 0.1% in August and are up 0.6% in the past year, so the Fed should not have any fear that deflation is taking hold. Excluding food and energy from the headline index, which includes both goods and services, "core" prices rose 0.1% in August and are up 1% in the past year. The "core" measure is where the Fed places greater weight when making the decisions on monetary policy. We get a report on consumer prices tomorrow morning, but unless that report shows inflation well above the 0.1% increase the consensus expects, don't be surprised if the Fed kicks the next rate hike to December. We think they should raise rates at next week's meeting, but they have shown a tendency to be easily spooked by any data coming in below expectations, even though data is volatile from month to month and the trend shows an economy ready for higher rates. In other recent inflation news, import prices declined 0.2% in August and are down 2.2% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 0.9% from a year ago even excluding petroleum. Export prices fell 0.8% in August and are down 2.4% from a year ago. Nonagricultural export prices declined 0.4% in August after five consecutive months of rising prices. We expect this measure to continue pushing higher in the months ahead, putting upward pressure on export prices.

<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Aug-16</b>	<b>Jul-16</b>	<b>Jun-16</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Final Demand</b>	<b>0.0%</b>	<b>-0.4%</b>	<b>0.5%</b>	<b>0.7%</b>	<b>1.1%</b>	<b>0.0%</b>
<b>Goods</b>	<b>-0.4%</b>	<b>-0.4%</b>	<b>0.8%</b>	<b>0.4%</b>	<b>2.5%</b>	<b>-2.0%</b>
- Ex Food & Energy	<b>0.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.4%</b>	<b>1.6%</b>	<b>0.6%</b>
<b>Services</b>	<b>0.1%</b>	<b>-0.3%</b>	<b>0.4%</b>	<b>1.1%</b>	<b>0.4%</b>	<b>1.1%</b>
<b>Private Capital Equipment</b>	<b>-0.4%</b>	<b>-0.6%</b>	<b>0.1%</b>	<b>-3.6%</b>	<b>-1.3%</b>	<b>1.3%</b>
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>-0.1%</b>	<b>0.2%</b>	<b>0.9%</b>	<b>4.3%</b>	<b>4.4%</b>	<b>-3.0%</b>
- Ex Food & Energy	<b>0.3%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>2.2%</b>	<b>2.3%</b>	<b>-1.0%</b>
<b>Unprocessed Goods</b>	<b>-2.8%</b>	<b>-0.4%</b>	<b>2.8%</b>	<b>-2.1%</b>	<b>11.1%</b>	<b>-8.1%</b>
- Ex Food & Energy	<b>0.8%</b>	<b>-0.8%</b>	<b>-0.3%</b>	<b>-1.5%</b>	<b>20.2%</b>	<b>2.1%</b>
<b>Services</b>	<b>0.0%</b>	<b>0.3%</b>	<b>0.8%</b>	<b>4.4%</b>	<b>1.4%</b>	<b>1.4%</b>

Source: Bureau of Labor Statistics