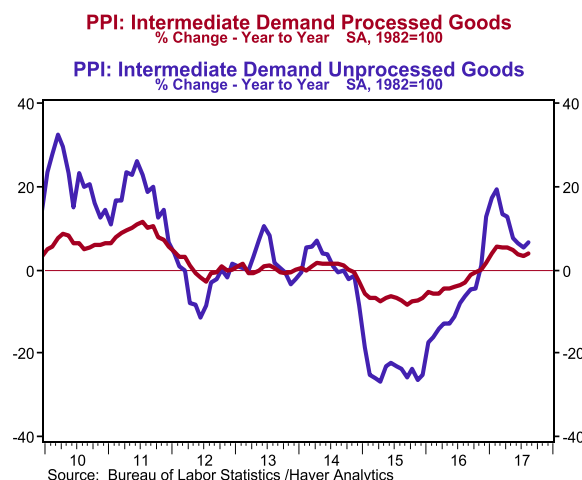
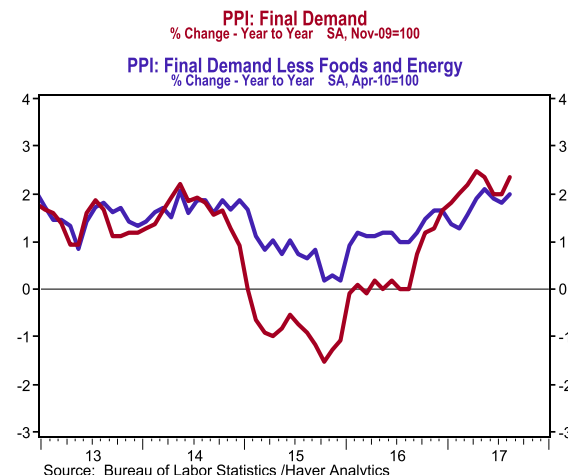


August PPI

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- The Producer Price Index (PPI) rose 0.2% in August versus a consensus expected rise of 0.3%. Producer prices are up 2.4% versus a year ago.
- Energy prices rose 3.3% in August, while food prices declined 1.3%. Producer prices excluding food and energy rose 0.1%.
- In the past year, prices for goods are up 3.1%, while prices for services are up 2.1%. Private capital equipment prices rose 0.3% in August and are up 2.3% in the past year.
- Prices for intermediate processed goods rose 0.4% in August and are up 4.1% versus a year ago. Prices for intermediate unprocessed goods declined 0.7% in August but are up 6.8% versus a year ago.

Implications: Producer prices rose 0.2% in August, led by a 9.5% jump in gasoline prices. While initial glances may wave this off as an effect of Hurricane Harvey, the PPI survey takes place in the middle of the month, so the hurricane-related rise in gasoline costs that started in late August, and will now carry through to September, were not reflected in this report. Looking beyond energy, rising costs for chemicals, light trucks, and potatoes helped to push goods price up 0.5% in August. Service sector prices rose in August as well, with margins for retailers and wholesalers pushing service prices up 0.1%. The numbers arguably most important in today’s report – which comes less than a week before the Fed begins their two-day meetings next Tuesday – are the twelve-month price changes. In the past year, producer prices have increased 2.4%, while prices excluding food and energy have increased 2%. And even if prices are unchanged in September - very unlikely due to the hurricanes - both of these numbers will remain at or above the Fed’s 2% inflation target. A look further down the pipeline shows price increases for intermediate goods well above 2% in the past year. Intermediate processed goods rose 0.4% in August and are up 4.1% from a year ago, while unprocessed goods declined 0.7% in August but remain up 6.8% in the past year. As a result, today’s data should bolster the Fed’s view to announce the start of balance sheet normalization at this month’s meeting and signal plans for one more rate hike in December.



| Producer Price Index | Aug-17 | Jul-17 | Jun-17 | 3-mo % Ch. annualized | 6-mo % Ch. annualized | Yr to Yr % Change |
|---|--------------|--------|--------|--------------------------|--------------------------|----------------------|
| <i>All Data Seasonally Adjusted Except for Yr to Yr</i> | | | | | | |
| Final Demand | 0.2% | -0.1% | 0.1% | 0.7% | 1.6% | 2.4% |
| Goods | 0.5% | -0.1% | 0.1% | 1.8% | 0.4% | 3.1% |
| - Ex Food & Energy | 0.2% | -0.1% | 0.1% | 0.7% | 1.6% | 2.0% |
| Services | 0.1% | -0.2% | 0.2% | 0.4% | 2.3% | 2.1% |
| Private Capital Equipment | 0.3% | -0.1% | 0.5% | 2.9% | 3.7% | 2.3% |
| Intermediate Demand | | | | | | |
| Processed Goods | 0.4% | -0.1% | -0.2% | 0.8% | 1.2% | 4.1% |
| - Ex Food & Energy | 0.4% | -0.3% | -0.2% | -0.2% | 1.9% | 3.1% |
| Unprocessed Goods | -0.7% | -0.4% | 1.5% | 1.7% | -6.8% | 6.8% |
| - Ex Food & Energy | 0.9% | 1.2% | 0.5% | 10.7% | 6.9% | 10.5% |
| Services | 0.2% | -0.3% | 0.6% | 2.1% | 2.3% | 2.6% |

Source: Bureau of Labor Statistics