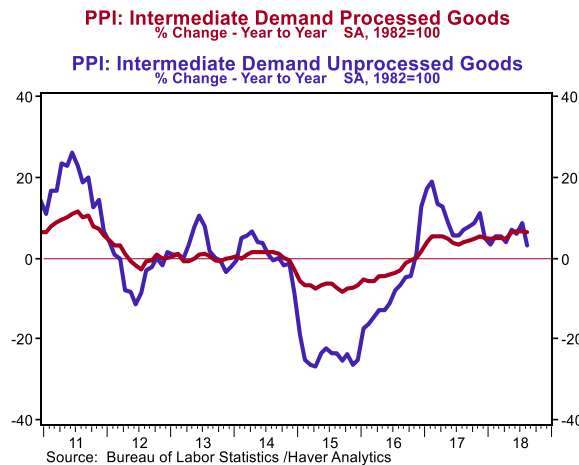
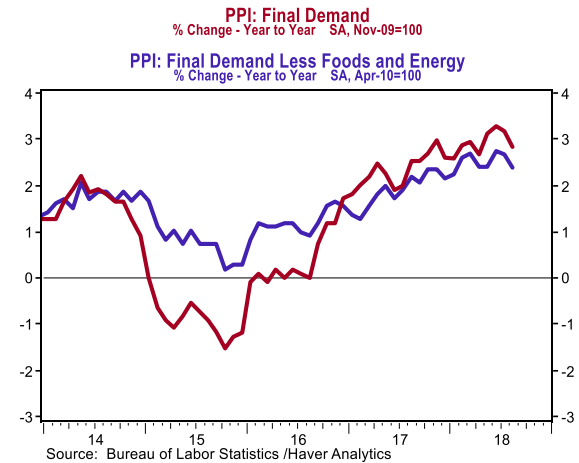


# August PPI

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- The Producer Price Index (PPI) declined 0.1% in August, coming in below the consensus expected rise of 0.2%. Producer prices are up 2.8% versus a year ago.
- Food prices declined 0.6% in August, while energy prices rose 0.4%. Producer prices excluding food and energy declined 0.1% in August but are up 2.3% in the past year.
- In the past year, prices for goods are up 3.9%, while prices for services are up 2.2%. Private capital equipment prices declined 0.3% in August, but are up 2.6% in the past year.
- Prices for intermediate processed goods were unchanged in August, but are up 6.3% versus a year ago. Prices for intermediate unprocessed goods fell 5.8% in August but are up 2.9% versus a year ago.



**Implications:** Producer prices fell for the first time in eighteen months in August, led by falling margins for machinery and equipment wholesalers. But even with the August decline, producer prices are up 2.8% in the past year, comfortably above the Fed’s two percent inflation target. A look at the details in August shows the ever-volatile food and energy sectors stayed true to their reputations, with food prices declining 0.6% and energy prices rising 0.4%. Strip out these two components, and “core” prices still declined 0.1% in August but are up 2.3% in the past year. In other words, both core and headline PPI measures continue to show trend inflation above the Fed’s 2% target, and today’s surprise decline shouldn’t change plans for a rate hike when the Fed meets later this month, with another rate hike (the fourth in 2018) slotted for December. And, given year-over-year readings above 2.0% for both producer and consumer prices, the flat reading for producer prices in July paired with August’s 0.1% decline doesn’t change our forecast for four more rate hikes in 2019. In addition to declines in food prices, trade services prices (think margins to wholesalers and retailers) dropped 0.9% in August. These could be the result of companies accepting smaller margins in the short-term, rather than raise prices for consumers, as input prices increase. A look at recent ISM reports suggests strong order activity paired with difficulty finding qualified labor and freight truck drivers is putting price pressure on some industries. Excluding declines in food, energy, and trade services, producer prices rose 0.1% in August and are up 2.9% in the past year, tied for the highest twelve-month increase since the series began in late 2014. We expect the soft patch in July and August won’t sustain, and monthly data will once again show rising prices in the months ahead. With economic growth above 3%, a tight labor market, and trend inflation above two percent, we believe more rate hikes are inevitable.

Producer Price Index	Aug-18	Jul-18	Jun-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
<b>Final Demand</b>	<b>-0.1%</b>	0.0%	0.3%	0.7%	2.1%	2.8%
<b>Goods</b>	<b>0.0%</b>	0.1%	0.1%	0.7%	2.7%	3.9%
- Ex Food & Energy	<b>0.0%</b>	0.3%	0.3%	2.1%	2.6%	2.7%
<b>Services</b>	<b>-0.1%</b>	-0.1%	0.4%	1.0%	1.9%	2.2%
<b>Private Capital Equipment</b>	<b>-0.3%</b>	0.3%	0.3%	1.1%	3.8%	2.6%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.0%</b>	0.0%	0.7%	2.8%	4.8%	6.3%
- Ex Food & Energy	<b>0.2%</b>	0.3%	0.7%	5.1%	5.4%	5.2%
<b>Unprocessed Goods</b>	<b>-5.8%</b>	2.7%	-1.0%	-15.8%	-10.4%	2.9%
- Ex Food & Energy	<b>-1.9%</b>	-1.2%	-0.2%	-12.4%	-2.8%	2.4%
<b>Services</b>	<b>0.1%</b>	0.2%	0.1%	1.4%	2.4%	2.9%

Source: Bureau of Labor Statistics