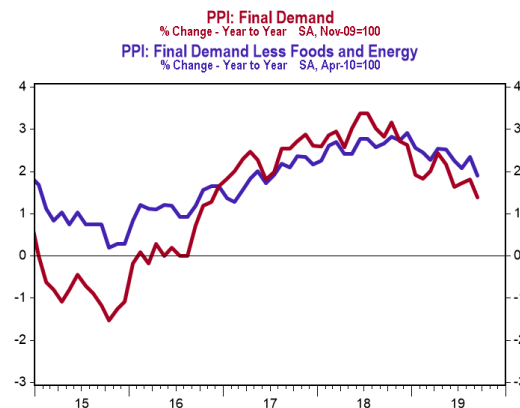


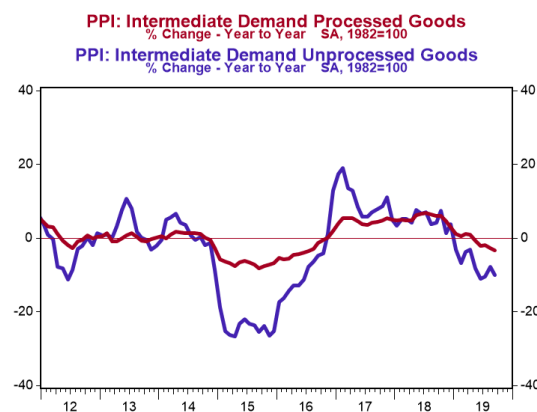
September PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- The Producer Price Index (PPI) declined 0.3% in September, coming in below the consensus expected rise of 0.1%. Producer prices are up 1.4% versus a year ago.
- Energy prices declined 2.5% in September, while food prices rose 0.3%. Producer prices excluding food and energy fell 0.3% in September but are up 2.0% in the past year.
- In the past year, prices for goods are down 0.5%, while prices for services have increased 2.2%. Private capital equipment prices declined 0.3% in September, but are up 1.6% in the past year.
- Prices for intermediate processed goods declined 0.4% in September and are down 3.4% versus a year ago. Prices for intermediate unprocessed goods fell 1.4% in September and are down 10.1% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: Producer prices made a surprise move lower in September, as falling energy prices and declining margins to wholesalers pushed the index down 0.3%. Energy prices dropped 2.5% in September, led lower by a 7.2% decline in gasoline prices. Food prices, meanwhile, rose 0.3% on the month. Strip out these typically volatile categories, and “core” prices also fell 0.3% in September, marking the largest single-month drop for core prices since early 2015. Declining margins to wholesalers, particularly machinery and vehicle wholesalers, led the drop in core prices in September, though most major categories moved lower. It’s important to note that, even with the multi-year large decline in September, “core” prices are up 2.0% in the past year, and have run at or above the Fed’s 2% inflation target on a year-ago comparison basis for the past twenty-six months straight. Consensus expectations for the “core” reading in Thursday’s consumer price index (CPI) release is a rise of 0.2%, and if that holds, “core” consumer prices will be up 2.4% in the past year. In other words, parsing the volatile month-to-month data from the trend, the Fed should consider if further rate cuts are really needed right now. The data don’t seem to justify it, but the Fed left data dependence behind back in July. Goods prices led the producer price index lower in September, with energy costs the key culprit. Services prices declined 0.2% in September, with falling wholesaler margins more than offsetting a 1.1% increase in the cost for hospital outpatient care. Further down the pipeline, prices for intermediate demand goods remains soft, while intermediate demand services prices continue to move higher. The pouting pundits may take today’s report and point to the decline as evidence that the Fed needs to move rates lower, but we think that’s a mistake. Core inflation remains in-line with targets, and a focus on a single-month’s reading misses the forest for a tree. That said, the Fed seems bent on lowering rates, and we expect we will see one more rate cut before the year is out, most likely coming at the meeting later this month.

Producer Price Index <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	Sep-19	Aug-19	Jul-19	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	-0.3%	0.1%	0.2%	-0.3%	0.9%	1.4%
Goods	-0.4%	-0.5%	0.4%	-2.1%	-1.5%	-0.5%
- Ex Food & Energy	-0.1%	0.0%	0.1%	0.0%	0.0%	0.9%
Services	-0.2%	0.3%	-0.1%	0.3%	2.2%	2.2%
Private Capital Equipment	-0.3%	-0.5%	0.4%	-1.4%	0.5%	1.6%
Intermediate Demand						
Processed Goods	-0.4%	-0.7%	0.2%	-3.2%	-4.1%	-3.4%
- Ex Food & Energy	-0.3%	-0.4%	-0.2%	-3.7%	-2.6%	-2.3%
Unprocessed Goods	-1.4%	-1.0%	1.6%	-3.5%	-12.1%	-10.1%
- Ex Food & Energy	-1.6%	0.1%	1.9%	1.4%	-12.7%	-4.2%
Services	0.1%	0.5%	-0.2%	1.7%	1.8%	2.4%

Source: Bureau of Labor Statistics