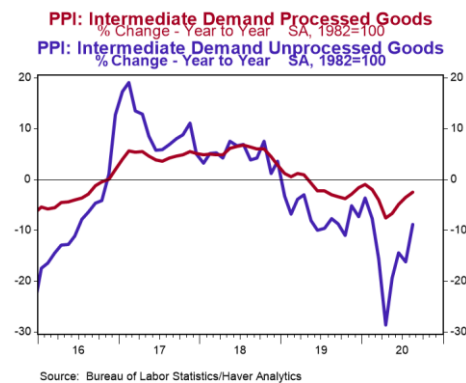
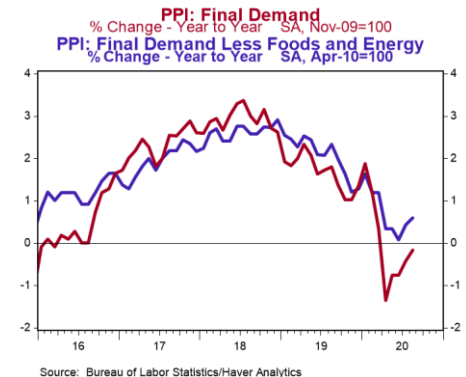


# August PPI

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

- The Producer Price Index (PPI) rose 0.3% in August versus a consensus expected 0.2%. Producer prices are down 0.2% versus a year ago.
- Food prices declined 0.4% in August, while energy prices fell 0.1%. Producer prices excluding food and energy rose 0.4% in August and are up 0.6% in the past year.
- In the past year, prices for goods are down 1.6%, while prices for services have risen 0.4%. Private capital equipment prices rose 0.3% in August and are up 0.5% in the past year.
- Prices for intermediate processed goods rose 0.6% in August, but are down 2.6% versus a year ago. Prices for intermediate unprocessed goods jumped 7.0% in August but remain down 9.0% versus a year ago.

**Implications:** Producer prices continued to rise in August, coming off a substantial jump in July, and would be up faster but for declining costs of food and energy products. Prices for services led the way in August, as margins received by wholesalers and retailers rose 1.2%. In particular, the margins for machinery, equipment, parts, and supplies accounted for roughly 20% of the service price increase. On the goods side, the typically volatile food and energy categories continue to live up to their reputations, with energy prices falling 0.1% (after three consecutive months of 5%+ increases) while food prices declined 0.4% on lower costs for eggs. Strip out these volatile categories, and “core” producer prices rose 0.4% in August, just a tenth of a percent off the largest monthly increase in the series’ (short) history dating back to early 2010. Core producer prices are up a modest 0.6% over the past twelve months, but expect that to move higher in the months ahead. Supply constraints, limitations on activity, and the general economic disruptions related to COVID-19 will continue to muddy the data for the foreseeable future, but what is clear is the massive increase in the M2 money supply, up 23.3% in the past year. Once the dust finally settles – and it eventually will – we expect inflation to trend back toward 2% and then higher. The Federal Reserve is loose and, as it has made abundantly clear, plans to stay that way for the foreseeable future. Meanwhile, businesses operating at limited capacity will remain a headwind to economic activity. The result will eventually be too much money chasing too few goods (and services), meaning higher – but not hyper – inflation. Further down the pipeline, prices for intermediate demand processed goods rose 0.6% in August, while intermediate demand unprocessed goods rose 7.0%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels. The data is starting to shift higher, though, tracking the emergence of the economy from what was a severe – but short – recession. We still have a long way to go to get back to where we were at the start of 2020, but the initial steps of recovery are under way, and we expect growth will march onward through the close of this year and beyond. In other news this morning, initial jobless claims were unchanged last week at 884,000. Meanwhile, continuing claims for regular benefits rose 93,000 to 13.385 million. Changes to the seasonal adjustment methodology of these series make comparison to month-ago levels a fool’s errand, but this jobs data will remain under intense focus in the weeks ahead for signs of progress or a stall on the path of the workforce recovery.



<b>Producer Price Index</b> <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	<b>Aug-20</b>	<b>Jul-20</b>	<b>Jun-20</b>	<b>3-mo % Ch.</b> <b>annualized</b>	<b>6-mo % Ch.</b> <b>annualized</b>	<b>Yr to Yr</b> <b>% Change</b>
<b>Final Demand</b>	<b>0.3%</b>	0.6%	-0.2%	3.1%	-0.3%	-0.2%
<b>Goods</b>	<b>0.1%</b>	0.8%	0.2%	4.3%	-3.3%	-1.6%
<b>- Ex Food &amp; Energy</b>	<b>0.3%</b>	0.3%	0.1%	2.7%	0.7%	0.8%
<b>Services</b>	<b>0.5%</b>	0.5%	-0.3%	2.7%	1.2%	0.4%
<b>Private Capital Equipment</b>	<b>0.3%</b>	0.9%	-0.9%	1.7%	2.2%	0.5%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.6%</b>	1.5%	0.9%	12.6%	-3.7%	-2.6%
<b>- Ex Food &amp; Energy</b>	<b>0.5%</b>	0.5%	0.5%	5.9%	-1.6%	-1.1%
<b>Unprocessed Goods</b>	<b>7.0%</b>	-0.7%	3.1%	43.6%	-11.1%	-9.0%
<b>- Ex Food &amp; Energy</b>	<b>1.7%</b>	0.3%	1.1%	13.3%	1.6%	5.7%
<b>Services</b>	<b>0.7%</b>	0.7%	0.2%	6.5%	-1.0%	-0.6%

Source: Bureau of Labor Statistics