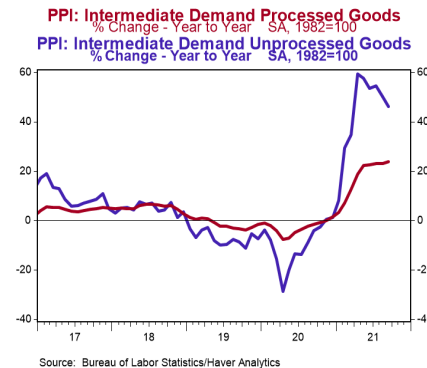
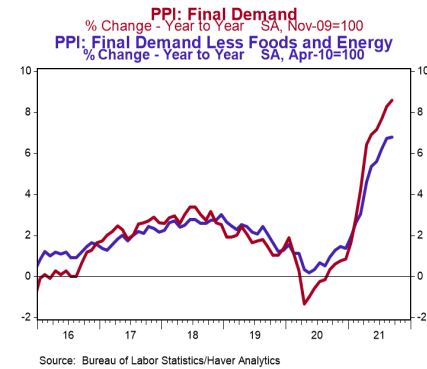


September PPI

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

- The Producer Price Index (PPI) rose 0.5% in September, slightly below the consensus expected +0.6%. Producer prices are up 8.6% versus a year ago.
- Energy prices rose 2.8% in September, while food prices increased 2.0%. Producer prices excluding food and energy increased 0.2% in September and are up 6.8% in the past year.
- In the past year, prices for goods are up 13.3%, while prices for services have risen 6.4%. Private capital equipment prices increased 0.6% in September and are up 6.8% in the past year.
- Prices for intermediate processed goods rose 1.3% in September and are up 23.9% versus a year ago. Prices for intermediate unprocessed goods rose 2.4% in September and are up 45.9% versus a year ago.



Implications: While yesterday’s report on consumer prices showed inflation rising at the fastest annual pace since 2008, price pressures further back in the pipeline are even more severe, with the twelve-month rise in producer prices hitting the highest level since 1981. Producer prices rose 0.5% in September, are up 8.6% in the past year, and up at an even faster 9.8% annualized rate in the past six months. For years after the financial crisis, the question from many was whether the Fed could induce even 2.0% inflation; now there’s increasing skepticism that the Fed’s “transitory” inflation will get back down anywhere near 2% in the foreseeable future. Supply-chain issues continue to exert significant upward pressure on prices, with no end in sight. From the shortage in semiconductors that has slowed production of everything from cars and trucks to household appliances, to difficulties finding labor to fill the record number of job openings in the US, supply simply hasn’t kept up with demand. And while the port congestion gets the news coverage, each step in the distribution process – from drivers to move loads out of the ports, trains available to move them across the country, and staff available to unload at warehouses – faces difficulties trying to meet demand. As last week’s jobs report showed, employees are working longer hours to make up for a lack of staff. But, with consumption of goods up more than 20% from pre-covid levels while nonfarm payrolls remain nearly five million workers short of pre-COVID staffing, it is a steep uphill battle. The shutdowns of 2020 dumped sand in the gears of the intricate free-market system that intertwines business in a near miraculous chain of connections that bring components from around the world together to produce products as simple as a pencil and as complex as pocket computers. And while producers were crippled, demand has been amplified by an M2 money supply that is 34% above pre-COVID levels, leaving both consumer and corporate pockets flush with cash. While supply-chain issues will ultimately prove temporary, the huge increase in the money supply is what will drive inflation over the long term. In terms of the details for September, prices for goods led the overall index higher, rising 1.3%. The most notable increases came from rising costs for food and energy. Stripping out the typically volatile food and energy components shows “core” prices rose 0.2% in September and are up 6.8% in the past year. In spite of inflation running well above the 2% target no matter how you cut it, we don’t expect the Fed to signal any change in plans to keep short-term rates near zero for the foreseeable future. They will likely begin to pare back asset purchases following the meeting in early November, but we do not anticipate a taper “tantrum” as we saw back in 2013. What matters most for the economy – and markets – is when the Fed lifts the Federal Funds rate, and that is still a long ways off. The labor market has to heal considerably further to get the Fed to seriously consider liftoff. Speaking of the labor market, data out this morning shows initial jobless claims fell 36,000 last week to 293,000 (the first sub-300,000 reading since early March 2020). Meanwhile continuing claims declined 134,000 to a new recovery low of 2.593 million. All eyes will be on jobs throughout the final quarter of 2021 and we expect job growth to accelerate.

Producer Price Index <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	Sep-21	Aug-21	Jul-21	3-mo % Ch. <small>annualized</small>	6-mo % Ch. <small>annualized</small>	Yr to Yr <small>% Change</small>
Final Demand	0.5%	0.7%	1.0%	9.5%	9.8%	8.6%
Goods	1.3%	1.0%	0.6%	12.0%	12.9%	13.3%
- Ex Food & Energy	0.6%	0.6%	1.0%	9.2%	10.7%	8.3%
Services	0.2%	0.7%	1.1%	8.2%	8.5%	6.4%
Private Capital Equipment	0.6%	0.2%	1.1%	8.1%	10.7%	6.8%
Intermediate Demand						
Processed Goods	1.3%	1.0%	1.7%	17.6%	22.7%	23.9%
- Ex Food & Energy	1.1%	1.3%	1.6%	17.1%	25.3%	21.6%
Unprocessed Goods	2.4%	1.0%	1.4%	21.0%	38.8%	45.9%
- Ex Food & Energy	-3.5%	0.0%	0.0%	-13.2%	17.7%	28.6%
Services	0.5%	0.3%	1.0%	7.2%	8.8%	8.0%

Source: Bureau of Labor Statistics