First Trust DATAWATCH

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August PPI

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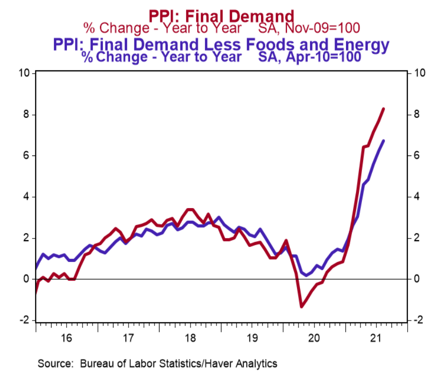
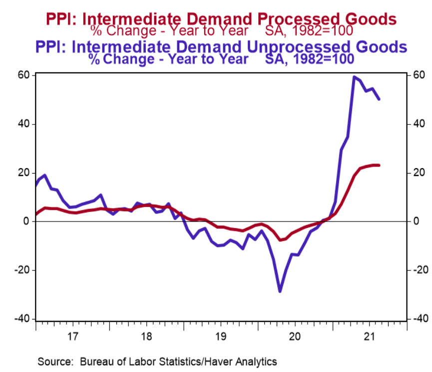
- The Producer Price Index (PPI) rose 0.7% in August, above the consensus expected +0.6%. Producer prices are up 8.3% versus a year ago.

- Food prices rose 2.9% in August, while energy prices increased 0.4%. Producer prices excluding food and energy increased 0.6% in August and are up 6.7% in the past year.

- In the past year, prices for goods are up 12.6%, while prices for services have risen 6.4%. Private capital equipment prices increased 0.2% in August and are up 6.0% in the past year.

- Prices for intermediate processed goods rose 1.0% in August and are up 23.0% versus a year ago. Prices for intermediate unprocessed goods also rose 1.0% in August and are up 50.1% versus a year ago.





Implications: Producer prices continued to surge in August, rising 0.7% for the month and bringing the annualized rate of change to date in 2021 to a whopping 10.7%. While for years after the financial crisis the question from many was whether the Fed could induce even 2% inflation, the question now is whether the Fed will be able to get back down near 2% in the foreseeable future. Producer prices are now up 8.3% year-to-year, the highest in more than a decade. And prices are accelerating, up at an 10.4% annualized pace in the past six months. While the Fed has continued to say higher inflation is "transitory," it's getting increasingly difficult to play down rising numbers. Supply-chain issues continue to be a significant 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 that demand is being supported by an M2 money supply that is 33% above pre-COVID levels, leaving both consumer and corporate pockets flush with cash. While supply-chain issues are temporary, the huge increase in the money supply is what will drive inflation over the long term. The Fed seems to anticipate that inflation will subside later this year and into 2022, but we think any waning in inflation later this year will be temporary, as the increase in the money supply continues to gain traction. In terms of the details for August, prices for services led the overall index higher, rising 0.7% (while prices for goods rose by a greater percentage in August, services represent a roughly 2/3rds weighting in the index and so contributed more to the headline number). The most notable increase came from final demand trade services, which tracks margins received by wholesalers and retailers. While prices for producer inputs are rising, they have the pricing power to pass on those costs to consumers. Goods prices rose 1.0% in August, led by food (+2.9%) – more specifically, meat prices which increased 8.5% on the month – which was partially offset by a decline in costs for iron and steel scrap (-3.7%). Stripping out the typically volatile food and energy components shows "core" prices rose 0.6% in August and are up 6.7% 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. We also don't expect the Fed to announce a tapering of quantitative easing until the fourth quarter. The Fed wants inflation to trend above the 2% target for a prolonged period, while the labor market – the other side of the Fed's dual mandate – has to heal considerably further to get the Fed to seriously consider a move higher (for details of last week's disappointing August jobs report, click here). In recent news on employment front, initial jobless claims fell 35,000 last week to 310,000. Meanwhile continuing claims declined 22,000 to a new recovery low of 2.783 million. With the ending of additional unemployment benefits nationally this past Monday, all eyes will be on the jobs recovery as we move into the final quarter of 2021.

Producer Price Index *All Data Seasonally Adjusted Except for Yr to Yr*	Aug-21	Jul-21	Jun-21	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Final Demand	0.7%	1.0%	1.0%	11.4%	10.4%	8.3%
Goods	1.0%	0.6%	1.2%	11.8%	13.5%	12.6%
- Ex Food & Energy	0.6%	1.0%	1.0%	10.7%	11.2%	7.9%
Services	0.7%	1.1%	0.8%	11.0%	8.8%	6.4%
Private Capital Equipment	0.2%	1.1%	1.4%	11.4%	9.5%	6.0%
Intermediate Demand						
Processed Goods	1.0%	1.7%	1.9%	20.1%	28.0%	23.0%
- Ex Food & Energy	1.3%	1.6%	2.3%	22.7%	29.2%	21.3%
Unprocessed Goods	1.0%	1.4%	2.6%	21.8%	21.4%	50.1%
- Ex Food & Energy	0.0%	0.0%	0.9%	3.8%	31.4%	39.3%
Services	0.3%	1.0%	1.1%	10.0%	9.2%	8.6%

Source: Bureau of Labor Statistics