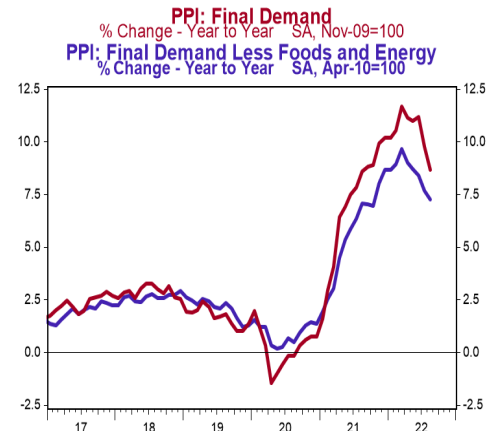


**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Senior Economist  
**Andrew Opdyke, CFA** – Senior Economist

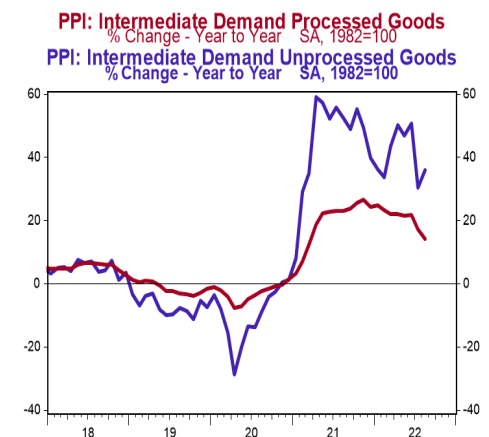
## August PPI

- The Producer Price Index (PPI) declined 0.1% in August, matching consensus expectations. Producer prices are up 8.7% versus a year ago.
- Energy prices declined 6.0% in August, while food prices were unchanged. Producer prices excluding food and energy rose 0.4% in August and are up 7.3% in the past year.
- In the past year, prices for goods are up 12.2%, while prices for services have risen 6.6%. Private capital equipment prices increased 0.3% in August and are up 12.4% in the past year.
- Prices for intermediate processed goods declined 1.7% in August but are up 14.1% versus a year ago. Prices for intermediate unprocessed goods rose 5.7% in August and are up 36.1% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics

**Implications:** Energy prices continue to whipsaw inflation readings, but one thing is clear, inflation remains well above where the Fed wants it. Some headlines will herald the second consecutive monthly decline in producer prices, suggesting that maybe the tides are turning and the Federal Reserve can take a less aggressive path moving forward, but that’s missing the forest for the trees. The 6.0% decline in energy prices (following a 9.0% drop in July) was the dominant force behind the monthly move in August. If you strip out the typically volatile food (unchanged in August) and energy categories, “core” prices rose 0.4% in August. And producer prices remain up a whopping 8.7% over the past year, while core prices are up 7.3%. It’s important to understand that, even if producer prices peaked on a year-ago basis back in March, it will not be a swift return to the Fed’s target of 2% annual inflation. We expect the path back toward normal will be far stickier than most anticipate as the massive surge in the M2 measure of money continues to wend itself through the economy. Looking at the details of today’s report show that core prices were led higher by trade services (margins received by wholesalers), which rose 0.8% in August, more than offsetting a decline in prices for transportation services. While there is plenty of prognostication around what the Fed will do and what that means for the economy – and the markets – moving forward, what matters most is that inflation continues to run well above the Fed’s target. Expect a 75 basis point rate hike next Wednesday, followed by an additional 100 basis points in rate hikes in the fourth quarter. Meanwhile, continue to follow M2 to see if monetary policy is tight enough to bring inflation back down.



Source: Bureau of Labor Statistics/Haver Analytics

<b>Producer Price Index</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Aug-22</b>	<b>Jul-22</b>	<b>Jun-22</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Final Demand</b>	<b>-0.1%</b>	<b>-0.4%</b>	<b>1.0%</b>	<b>1.9%</b>	<b>7.2%</b>	<b>8.7%</b>
<b>Goods</b>	<b>-1.2%</b>	<b>-1.7%</b>	<b>2.2%</b>	<b>-3.1%</b>	<b>9.1%</b>	<b>12.2%</b>
<b>- Ex Food &amp; Energy</b>	<b>0.2%</b>	<b>0.2%</b>	<b>0.5%</b>	<b>3.3%</b>	<b>7.7%</b>	<b>8.1%</b>
<b>Services</b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>4.1%</b>	<b>5.8%</b>	<b>6.6%</b>
<b>Private Capital Equipment</b>	<b>0.3%</b>	<b>0.9%</b>	<b>0.7%</b>	<b>7.8%</b>	<b>9.7%</b>	<b>12.4%</b>
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>-1.7%</b>	<b>-2.2%</b>	<b>2.0%</b>	<b>-7.6%</b>	<b>9.6%</b>	<b>14.1%</b>
<b>- Ex Food &amp; Energy</b>	<b>-0.8%</b>	<b>-0.2%</b>	<b>0.1%</b>	<b>-4.0%</b>	<b>5.8%</b>	<b>14.2%</b>
<b>Unprocessed Goods</b>	<b>5.7%</b>	<b>-10.7%</b>	<b>4.8%</b>	<b>-4.3%</b>	<b>28.1%</b>	<b>36.1%</b>
<b>- Ex Food &amp; Energy</b>	<b>1.0%</b>	<b>-7.0%</b>	<b>-2.3%</b>	<b>-28.9%</b>	<b>-4.6%</b>	<b>-1.6%</b>
<b>Services</b>	<b>1.0%</b>	<b>0.2%</b>	<b>-0.4%</b>	<b>3.2%</b>	<b>7.0%</b>	<b>6.3%</b>

Source: Bureau of Labor Statistics