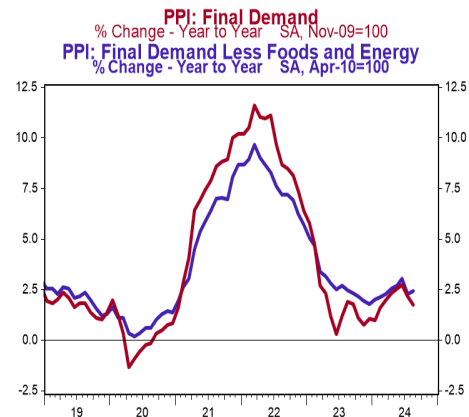


September PPI

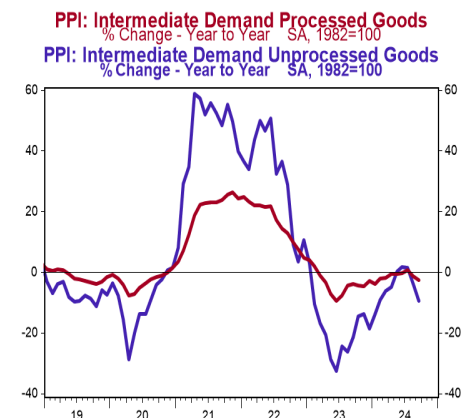
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- The Producer Price Index (PPI) was unchanged in September, coming in below the consensus expected increase of 0.1%. Producer prices are up 1.8% versus a year ago.
- Energy prices declined 2.7% in September, while food prices increased 1.0%. Producer prices excluding food and energy rose 0.2% in September and are up 2.8% versus a year ago.
- In the past year, prices for goods are down 1.1%, while prices for services have increased 3.1%. Private capital equipment prices rose 0.2% in September and are up 2.7% in the past year.
- Prices for intermediate processed goods declined 0.8% in September and are down 2.7% versus a year ago. Prices for intermediate unprocessed goods fell 3.2% in September and are down 9.5% versus a year ago.

Implications: Producer prices were unchanged in September. While the Fed will probably cut interest rates in November, it is not at all clear that inflation problems are fully behind us. It should be noted that energy prices have played an outsized role in the slower inflation readings of late, and stripping out this volatile component shows the Federal Reserve still has some work to do. Nevertheless, the Fed looks nearly certain to cut rates by 0.25% when they meet again immediately following Election Day. With the flat reading in September, producer prices are up 1.8% in the past year. But when you strip out energy as well as food prices – the other historically volatile category – “core” producer prices rose 0.2% in September and are up 2.8% in the past year, a faster pace than the 2.3% reading for the twelve months ending September 2023. Diving into the details of today’s report shows service prices lead the core index higher, rising 0.2% in September and up 3.1% in the past year. The September increase in services was broad based, with all major categories showing higher prices. Prices for goods declined 0.2% in September and are down 1.1% from a year ago. Within goods, rising costs for motor vehicles, chicken, and electric power were more than offset by a 5.6% decline in gasoline prices (which should reverse and show a rise in October with energy prices up more than 10% so far this month). Further back in the supply chain, prices in September declined 0.8% for intermediate demand processed goods and fell 3.2% for unprocessed goods. The direction of inflation moving forward is very likely to be dictated by 1) the services side of the economy, which suffered heavily during the COVID shutdowns but has since returned to the forefront and 2) changes in the money supply, which, after surging in 2020-21, peaked in early 2022. Although the M2 measure of money has been rising gradually since last October, it’s still down 2.5% from the peak in April 2022. Too little growth in the money supply means continued downward pressure on both inflation and economic growth. We will be watching the path of M2 growth closely as the Fed continues cutting rates. A sharp resurgence in M2 growth would bring with it the risk of accelerating inflation. Does the Fed have the patience to ease at a slow and steady pace, or will they overreact at signs of economic trouble? Only time will tell, but the stakes are high and the Fed’s record is less than pristine.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Sep-24	Aug-24	Jul-24	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.0%	0.2%	0.0%	1.3%	2.3%	1.8%
Goods	-0.2%	0.0%	0.6%	1.3%	-0.9%	-1.1%
- Ex Food & Energy	0.2%	0.2%	0.2%	2.2%	2.2%	2.0%
Services	0.2%	0.4%	-0.2%	1.2%	3.7%	3.1%
Private Capital Equipment	0.2%	0.7%	-0.3%	2.3%	4.5%	2.7%
Intermediate Demand						
Processed Goods	-0.8%	-0.2%	0.6%	-1.5%	-2.6%	-2.7%
- Ex Food & Energy	-0.1%	0.1%	0.1%	0.3%	0.9%	-3.0%
Unprocessed Goods	-3.2%	-3.1%	2.1%	-16.0%	-3.5%	-9.5%
- Ex Food & Energy	1.9%	-1.1%	0.4%	4.9%	6.3%	1.8%
Services	0.2%	-0.1%	0.3%	1.5%	2.7%	3.5%

Source: Bureau of Labor Statistics