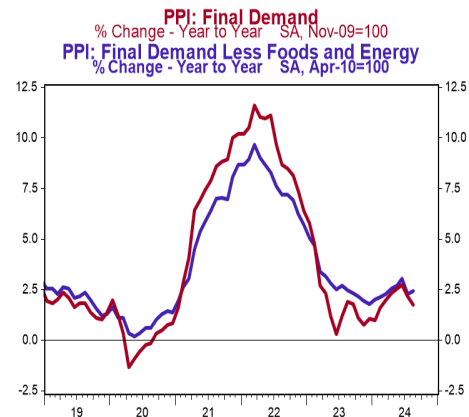


# August PPI

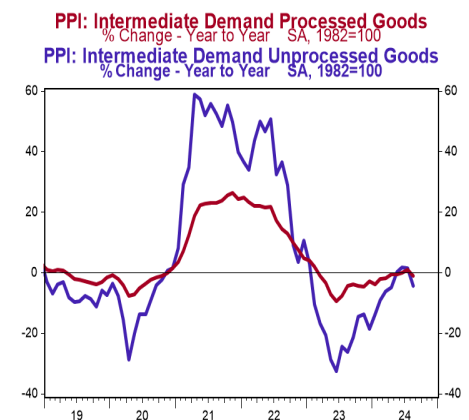
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- The Producer Price Index (PPI) rose 0.2% in August, coming in above the consensus expected increase of 0.1%. Producer prices are up 1.7% versus a year ago.
- Energy prices declined 0.9% in August, while food prices increased 0.1%. Producer prices excluding food and energy rose 0.3% in August and are up 2.4% versus a year ago.
- In the past year, prices for goods are unchanged, while prices for services have increased 2.6%. Private capital equipment prices rose 0.9% in August and are up 1.8% in the past year.
- Prices for intermediate processed goods declined 0.1% in August and are down 1.1% versus a year ago. Prices for intermediate unprocessed goods fell 3.7% in August and are down 4.3% versus a year ago.

**Implications:** Producer prices grew at a modest pace in August and year-ago comparisons continue to temper after rising in early 2024. However, 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, it is a near certainty that the Fed will begin the rate cut process next week, with the first of what we anticipate will be many 25 basis point rate cuts ahead. Headline producer prices rose 0.2% in August and are up 1.7% in the past year. The 0.2% inflation reading for August was held back by a 0.9% decline in energy prices, which are now down 8.4% in the past year. Food prices – the other historically volatile category – rose a modest 0.1% in August. Strip out these two components shows “core” prices rose 0.3% in August and are up 2.4% in the past year, nearly unchanged from the 2.5% reading for the twelve months ending August 2023. Diving into the details of today’s report shows service prices lead the index higher, rising 0.4% in August and up 2.6% in the past year. The August increase in services was led by final demand services less trade, transportation and warehousing (+0.3%), while margins for trade services rose 0.6%. Prices for goods were unchanged in August and are completely flat from a year ago. Within goods, rising costs for non-electric cigarettes were offset by the abovementioned decline in energy costs. Further back in the supply chain, prices in August declined 0.1% for intermediate demand processed goods and fell 3.7% 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 October, it’s still down 3.1% 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 starts 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



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<b>Producer Price Index</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Aug-24</b>	<b>Jul-24</b>	<b>Jun-24</b>	<b>3-mo % Ch. annualized</b>	<b>6-mo % Ch. annualized</b>	<b>Yr to Yr % Change</b>
<b>Final Demand</b>	<b>0.2%</b>	0.0%	0.2%	1.7%	1.9%	1.7%
<b>Goods</b>	<b>0.0%</b>	0.6%	-0.3%	0.9%	-0.7%	0.0%
<b>- Ex Food &amp; Energy</b>	<b>0.2%</b>	0.2%	0.0%	1.7%	1.9%	2.1%
<b>Services</b>	<b>0.4%</b>	-0.3%	0.4%	2.0%	3.0%	2.6%
<b>Private Capital Equipment</b>	<b>0.9%</b>	-0.5%	0.7%	4.9%	4.2%	1.8%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>-0.1%</b>	0.6%	-0.1%	1.9%	-1.7%	-1.1%
<b>- Ex Food &amp; Energy</b>	<b>0.1%</b>	0.1%	0.0%	0.5%	0.0%	-1.3%
<b>Unprocessed Goods</b>	<b>-3.7%</b>	2.1%	0.5%	-4.8%	-1.2%	-4.3%
<b>- Ex Food &amp; Energy</b>	<b>-1.1%</b>	0.8%	-0.5%	-3.0%	4.2%	-0.1%
<b>Services</b>	<b>-0.1%</b>	0.3%	0.2%	1.6%	2.4%	3.4%

Source: Bureau of Labor Statistics