First Trust Data Watch

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SEPTEMBER PPI

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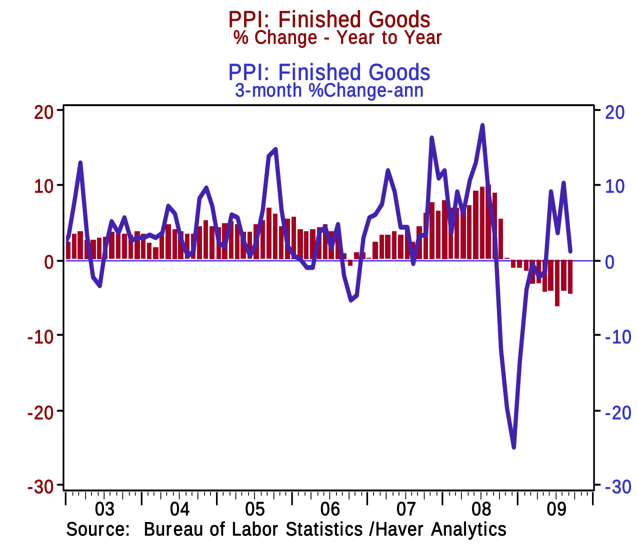
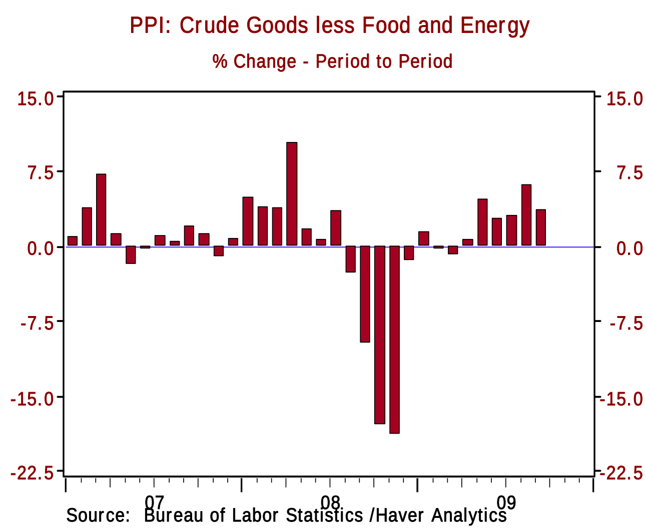
- The Producer Price Index (PPI) decreased 0.6% in September, coming in below the consensus expected 0.0%. The PPI is down 4.8% versus a year ago, but up at a 1.2% annual rate in the past three months.
- The September decrease in the PPI was mostly due to energy, which decreased 2.4%. The "core" PPI, which excludes food and energy, decreased 0.1%.
- Consumer goods prices decreased 0.7% in September but are up at a 2.0% annual rate in the past three months. Capital equipment prices decreased 0.1% in September and are unchanged in the past three months.
- Intermediate goods prices increased 0.2% in September and are up at a 7.2% annual rate in the past three months. Crude prices declined 2.1% in September and are down at an 11.3% annual rate in the past three months.

Implications: Producer prices fell in Septmeber, but the underlying trend will remain upward. Prices have beeen volatile in recent months, with September's drop following a 1.7% gain in August. During the past six months, producer prices are up at a 5% annual rate. An upward inflation trend is also discernable in the "core" PPI, which excludes food and energy. Core prices for finshed goods were down 0.1% in September. But core intermediate prices were up 0.9% in September and are up at a 7.2% annual rate in the past three months. Core prices for crude goods were up 3.6% in September and are up at a 63.3% annual rate in the past three months. What these core measures show is that inflation is in the production pipeline, percolating below the level of finished goods. The Fed is still implementing an incredibly loose monetary policy even as economic conditions are changing to make that policy less and less desirable. A revival in monetary velocity coupled with extremely loose monetary policy means higher inflation is going to hit the US economy over the next couple of years.





Producer Price Index *All Data Seasonally Adjusted*	**Sep-09**	**Aug-09**	**Jul-09**	**3-mo % Ch. annualized**	**6-mo % Ch. annualized**	**Yr to Yr % Change**
Finished Goods	**-0.6%**	1.7%	-0.9%	1.2%	5.0%	-4.8%
Ex Food and Energy	**-0.1%**	0.2%	-0.1%	0.0%	1.1%	1.8%
Food	**-0.1%**	0.4%	-1.5%	-4.9%	-0.3%	-4.0%
Energy	**-2.4%**	8.0%	-2.4%	12.0%	25.6%	-22.2%
Consumer Goods	**-0.7%**	2.3%	-1.1%	2.0%	6.6%	-6.4%
Capital Equipment	**-0.1%**	0.3%	-0.2%	0.0%	0.6%	1.4%
Intermediate Goods	**0.2%**	1.8%	-0.2%	7.2%	7.0%	-11.6%
Ex Food & Energy	**0.9%**	0.6%	0.2%	7.2%	2.4%	-7.5%
Energy	**-2.1%**	7.1%	-1.4%	14.4%	30.9%	-24.2%
Crude Goods	**-2.1%**	3.8%	-4.5%	-11.3%	17.0%	-31.5%
Ex Food & Energy	**3.6%**	6.0%	2.9%	63.3%	49.7%	-19.6%
Energy	**-5.4%**	6.9%	-6.2%	-18.9%	30.9%	-42.6%

Source: Bureau of Labor Statistics