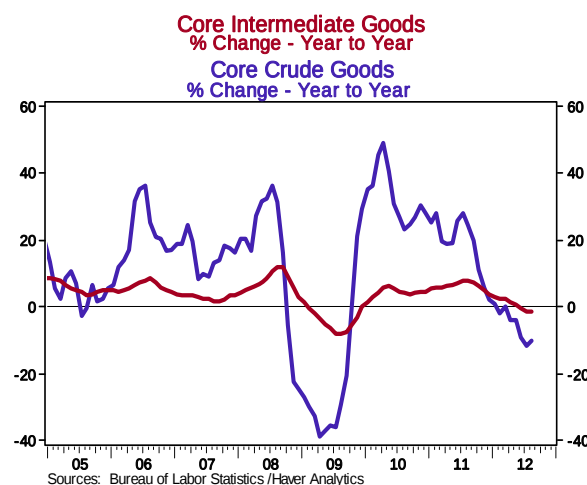
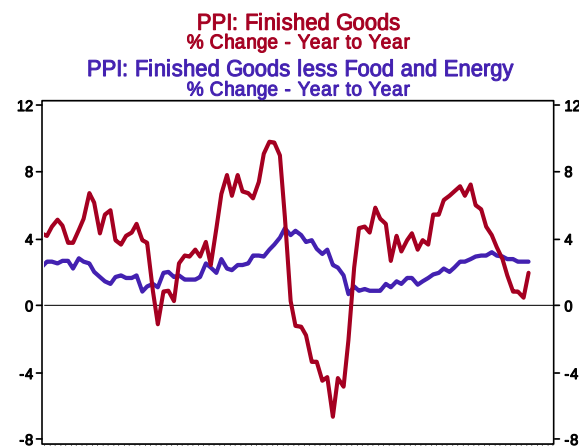


August PPI

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- The Producer Price Index (PPI) increased 1.7% in August, coming in well above the consensus expected gain of 1.2%. Producer prices are up 2.0% versus a year ago.
- Most of the gain was due to energy, which rose 6.4%. Food prices rose 0.9%. The “core” PPI, which excludes food and energy, increased 0.2%.
- Consumer goods prices were up 2.3% in August, and are up 2.0% versus last year. Capital equipment prices rose 0.2% in August and are also up 2.0% in the past year.
- Core intermediate goods prices fell 0.2% in August and are down 1.6% versus a year ago. Core crude prices were up 2.2% in August, but are down 10.2% versus a year ago.

Implications: Inflation came back with a vengeance in August. Due to a strong rebound in energy and food prices, producer prices rose 1.7%, a much faster gain than the consensus expected and the largest increase since mid-2009. The next few months will show more inflation. Energy prices have continued to rise in September and food prices will be affected by a drought. Meanwhile, “core” prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.2% in August and are up at a 3.6% annual rate in the past three months. Some analysts may suggest that with the PPI only up 2% from a year ago the Federal Reserve has room for another round of quantitative easing when it decides on the course of monetary policy later today. We believe monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding more excess reserves to the banking system is not going to boost economic growth. In other recent inflation news, import and export prices moved higher in August, imports by 0.7%, exports by 0.9%. The gain in import prices was all due to oil; import prices ex-petroleum declined 0.2%. The rise in export prices was not all due to food; ex-agriculture prices rose 0.4%. In the past year, import prices are down 2.2% while export prices are down 0.9%. Given the loose stance of monetary policy, rising oil prices, and a drought in the US, we expect these figures to turn around soon. On the broader economy, new claims for unemployment insurance increased 15,000 last week to 382,000, the most in two months. The Labor Department says Hurricane Isaac temporarily boosted claims in several states. Continuing claims for regular state benefits fell 49,000 to 3.28 million.



Sources: Bureau of Labor Statistics / Haver Analytics

Producer Price Index <i>All Data Seasonally Adjusted</i>	Aug-12	Jul-12	Jun-12	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.7%	0.3%	0.1%	8.2%	1.2%	2.0%
Ex Food and Energy	0.2%	0.4%	0.2%	3.6%	2.8%	2.5%
Food	0.9%	0.5%	0.5%	7.7%	3.2%	2.1%
Energy	6.4%	-0.4%	-0.9%	21.3%	-3.9%	0.4%
Consumer Goods	2.3%	0.2%	0.0%	10.4%	1.0%	2.0%
Capital Equipment	0.2%	0.2%	0.2%	2.5%	2.0%	2.0%
Intermediate Goods	1.1%	-0.9%	-0.5%	-1.4%	-1.8%	-1.0%
Ex Food & Energy	-0.2%	-0.9%	-0.7%	-7.2%	-2.3%	-1.6%
Energy	4.4%	-1.6%	-0.2%	10.6%	-4.7%	-1.2%
Crude Goods	5.8%	1.8%	-3.6%	16.2%	-12.6%	-3.7%
Ex Food & Energy	2.2%	-1.1%	-4.0%	-11.6%	-10.8%	-10.2%
Energy	9.7%	0.6%	-5.1%	20.0%	-29.8%	-4.8%

Source: Bureau of Labor Statistics