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August PPI

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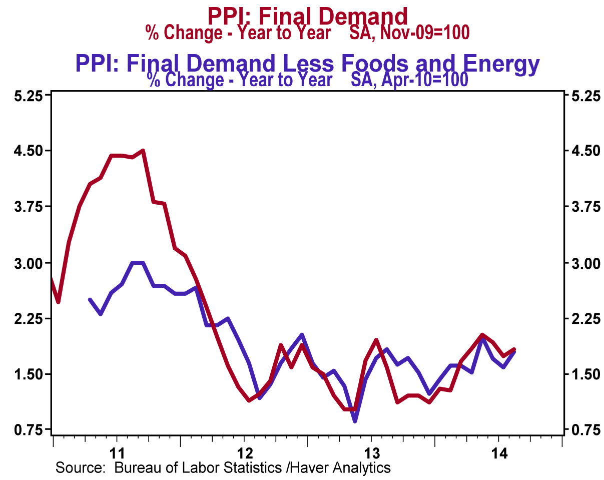
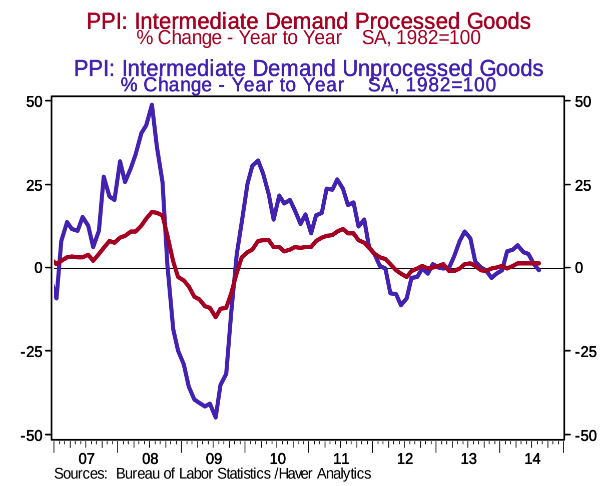
- The Producer Price Index (PPI) was unchanged in August, in line with consensus expectations. Producer prices are up 1.8% versus a year ago.
- A 0.3% increase in prices for services was offset by a 0.3% decline in the price for goods, including a 1.5% drop in energy prices and a 0.5% decline in food prices.
- In the past year, prices for services are up 1.9% while goods prices are up 1.7%. Private capital equipment prices were unchanged in August but are up 0.8% in the past year.
- Prices for intermediate processed goods declined 0.3% in August, but are up 1.2% versus a year ago. Prices for intermediate unprocessed goods declined 3.3% in August, and are down 0.8% versus a year ago.





Implications: Inflation is still in a long-term rising trend, but that process is going to be gradual, with many stops and starts along the way. Booming energy production is a key reason why headline inflation hasn't moved up more quickly. Producer energy prices fell 1.5% in August and are up only 0.2% from a year ago, a testament to fracking and horizontal drilling. Largely as a result, producer prices were unchanged in August and are up a modest 1.8% from a year ago. Still, through the first eight months of 2014, producer prices are up at a 2% annual rate, well above the 1.1% rate over the same period in 2013. The Federal Reserve should take note that rising inflation is more apparent in the services sector, where prices are up at a 2.6% annual rate in the past three months versus a 1.9% gain in the past year. Prices further back in the production pipeline (intermediate demand) do not yet confirm a continued acceleration in inflation. Prices for intermediate processed goods are up at a 1% annual rate in the past three months, slightly below the 1.2% gain over the past year. Prices for unprocessed goods saw a sharp 3.3% decline in August and are down at a 24.7% annual rate in the past three months. But intermediate demand prices are highly volatile and we expect prices to move higher over the coming months. Taken as a whole, the trend in producer price inflation continues to hover around 2%, suggesting the Fed should continue on the path of ending quantitative easing by the end of October. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth. Loose monetary policy will eventually gain traction.

Producer Price Index *All Data Seasonally Adjusted*	Aug-14	Jul-14	Jun-14	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	**0.0%**	0.1%	0.4%	1.8%	2.0%	1.8%
Goods	**-0.3%**	0.0%	0.5%	0.7%	1.2%	1.7%
- Ex Food & Energy	**0.0%**	0.2%	0.1%	1.1%	0.9%	1.6%
Services	**0.3%**	0.1%	0.3%	2.6%	2.4%	1.9%
Private Capital Equipment	**0.0%**	-0.2%	0.0%	-0.7%	0.0%	0.8%
Intermediate Demand						
Processed Goods	**-0.3%**	0.1%	0.4%	1.0%	0.3%	1.2%
- Ex Food & Energy	**0.2%**	0.3%	0.1%	2.5%	1.0%	1.3%
Unprocessed Goods	**-3.3%**	-2.7%	-0.9%	-24.7%	-12.2%	-0.8%
- Ex Food & Energy	**-0.7%**	0.0%	-1.1%	-7.0%	-2.3%	-0.2%
Services	**0.2%**	0.3%	0.6%	4.1%	1.9%	1.7%

Source: Bureau of Labor Statistics