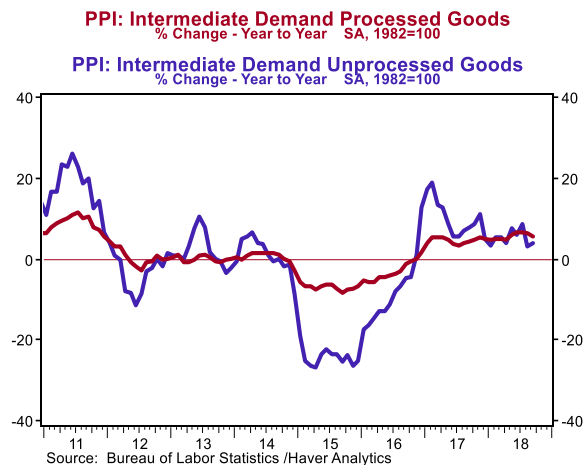
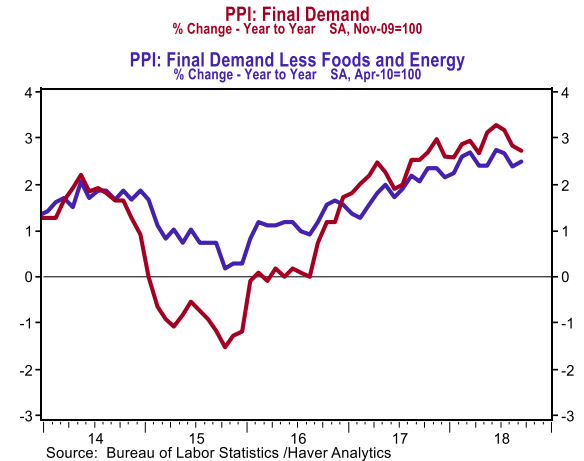


September PPI

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- The Producer Price Index (PPI) rose 0.2% in September, matching consensus expectations. Producer prices are up 2.6% versus a year ago.
- Energy prices declined 0.8% in September, while food prices fell 0.6%. Producer prices excluding food and energy rose 0.2% in September and are up 2.5% in the past year.
- In the past year, prices for goods are up 3.2%, while prices for services are up 2.4%. Private capital equipment prices rose 0.3% in September and are up 2.8% in the past year.
- Prices for intermediate processed goods were unchanged in September, but are up 5.8% versus a year ago. Prices for intermediate unprocessed goods rose 1.7% in September and are up 4.3% versus a year ago.

Implications: Following a surprise lull in August (the first decline in eighteen months), producer prices returned to their rising ways in September. And the 0.2% increase in producer prices in September came in spite of a 0.8% decline in energy prices and a 0.6% decline in food prices. Strip out these two volatile categories, and “core” producer prices rose 0.2% in September and are up 2.5% in the past year. A look at the details in September shows the rise was led by increased costs for services, including a 5.5% rise in prices for airline passenger services. Goods prices, meanwhile, fell 0.1% in September, the first decline for the category since May of 2017. However, the September decline in goods was entirely due to the food and energy categories. Strip those out, and goods prices increased 0.2% in September. Also of note in today’s report was that trade services prices (think margins to wholesalers and retailers) continues to run below the pace of both headline and “core” inflation. This could be the result of companies accepting smaller margins in the short-term, rather than raise prices for consumers, as input prices increase. A look at recent ISM reports suggests strong order activity paired with difficulty finding qualified labor and freight truck drivers is putting price pressure on some industries. Excluding food, energy, and trade services, producer prices rose 0.4% in September and are up 2.9% in the past year, tied for the highest twelve-month increase since the series began in late 2014. No matter which way you cut – headline prices up 2.6% in the past year or “core” prices up 2.5% - trend inflation clearly stands above the Fed’s 2% target. Paired with recent [comments by Fed Chair Powell](#) and continued strength in economic data, we expect both FOMC members and the markets as a whole to shift towards our long-standing expectation for one more hike this year (for a total of four in 2018) and four more hikes to come in 2019 (the Fed currently forecasts three hikes in 2019, while the markets are pricing in just two). With nominal GDP growth of 4.6% over the past two years, monetary policy is far from being tight, and a steady pace of rate hikes won’t dent the Kevlar economy.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Sep-18	Aug-18	Jul-18	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.2%	-0.1%	0.0%	0.3%	2.1%	2.6%
Goods	-0.1%	0.0%	0.1%	0.0%	1.9%	3.2%
- Ex Food & Energy	0.2%	0.0%	0.3%	1.7%	2.3%	2.7%
Services	0.3%	-0.1%	-0.1%	0.3%	1.9%	2.4%
Private Capital Equipment	0.3%	-0.3%	0.3%	1.4%	3.0%	2.8%
Intermediate Demand						
Processed Goods	0.0%	0.0%	0.0%	-0.2%	4.9%	5.8%
- Ex Food & Energy	0.2%	0.2%	0.3%	3.0%	4.7%	5.0%
Unprocessed Goods	1.7%	-5.8%	2.7%	-6.4%	-0.5%	4.3%
- Ex Food & Energy	-2.8%	-1.9%	-1.2%	-21.0%	-10.3%	-1.8%
Services	0.5%	0.1%	0.2%	3.1%	2.9%	3.3%

Source: Bureau of Labor Statistics