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# August PPI

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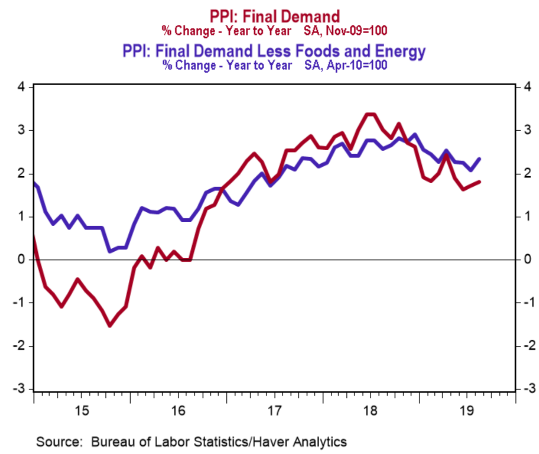
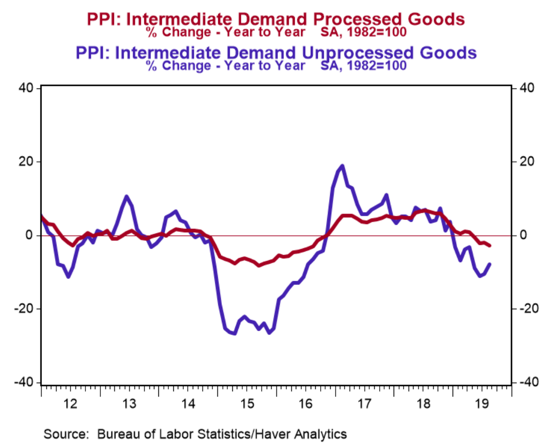
- The Producer Price Index (PPI) increased 0.1% in August, coming in above the consensus expectation of no change. Producer prices are up 1.8% versus a year ago.
- Energy prices declined 2.5% in August, while food prices fell 0.6%. Producer prices excluding food and energy rose 0.3% in August and are up 2.3% in the past year.
- In the past year, prices for goods are down 0.1%, while prices for services have increased 2.7%. Private capital equipment prices declined 0.5% in August, but are up 2.0% in the past year.
- Prices for intermediate processed goods declined 0.7% in August and are down 2.8% versus a year ago. Prices for intermediate unprocessed goods fell 1.0% in August and are down 7.8% versus a year ago.




**Implications:** With the Fed meeting next week to discuss cutting rates, inflation data remain under the microscope and today's report on producer prices gives policymakers plenty to think about. While the headline reading on inflation rose a modest 0.1% in August, it was held down by the volatile food and energy components, which fell 2.5% and 0.6%, respectively. Strip those out, and "core" prices rose 0.3% in August. What's more important is that "core" prices are up 2.3% in the past year, above the Fed's 2% inflation target, and have run above 2% on a year-ago comparison basis for the past twenty-five months straight. Consensus expectations for the "core" reading in tomorrow's consumer price index (CPI) release is a rise of 0.2%, and if that holds, "core" consumer prices will also be up 2.3% in the past year. In other words, the Fed should consider if further rate cuts are really needed right now. The data don't seem to justify it, but the Fed left data dependence behind back in July. Service prices led the producer price index higher in August, with guestroom rentals (up 6.4% in August) and wholesaler margins (up 0.2%) key contributors. Goods prices declined 0.5% in August, but that can be largely attributed to a 6.6% drop in gasoline prices. Strip out food and energy, and goods prices were unchanged. Further down the pipeline, prices for intermediate demand goods remains soft, but as with the final demand readings, rising costs for services more than offset the lower goods prices. None of this is to say inflation looks set to take off rapidly, but rather that the Fed's mandates of employment and inflation stand at levels that, at worst, suggest no current action is needed (and data from other indicators suggest higher, not lower, rates should be the Fed's path ahead). But the Fed seems bent on lowering rates, and that remains the highly likely scenario for next week's meeting. Chairman Powell will have some explaining to do in his post-statement press conference.

| **Producer Price Index** *All Data Seasonally Adjusted Except for Yr to Yr* | Aug-19 | Jul-19 | Jun-19 | 3-mo % Ch. *annualized* | 6-mo % Ch. *annualized* | Yr to Yr *% Change* |
|---|---|---|---|---|---|---|
| ***Final Demand*** | **0.1%** | 0.2% | 0.1% | 1.4% | 2.4% | 1.8% |
| ***Goods*** | **-0.5%** | 0.4% | -0.4% | -2.1% | 1.2% | -0.1% |
| ***- Ex Food & Energy*** | **0.0%** | 0.1% | 0.0% | 0.3% | 0.3% | 1.0% |
| ***Services*** | **0.3%** | -0.1% | 0.4% | 2.7% | 2.7% | 2.7% |
| ***Private Capital Equipment*** | **-0.5%** | 0.4% | 0.0% | -0.3% | 1.2% | 2.0% |
| ***Intermediate Demand*** | | | | | | |
| ***Processed Goods*** | **-0.7%** | 0.2% | -1.1% | -5.9% | -2.2% | -2.8% |
| ***- Ex Food & Energy*** | **-0.4%** | -0.2% | -0.1% | -2.9% | -2.2% | -1.6% |
| ***Unprocessed Goods*** | **-1.0%** | 1.6% | -3.3% | -10.6% | -10.2% | -7.8% |
| ***- Ex Food & Energy*** | **0.1%** | 1.9% | -0.5% | 5.8% | -7.2% | -3.7% |
| ***Services*** | **0.5%** | -0.2% | 0.2% | 2.3% | 2.7% | 2.5% |

*Source: Bureau of Labor Statistics*