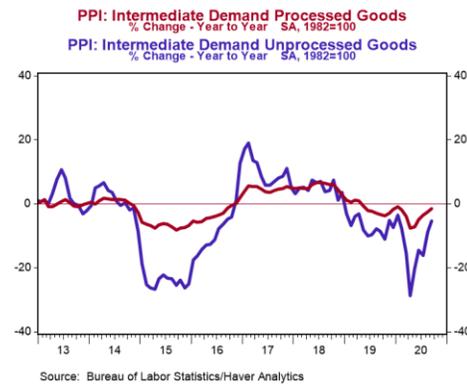
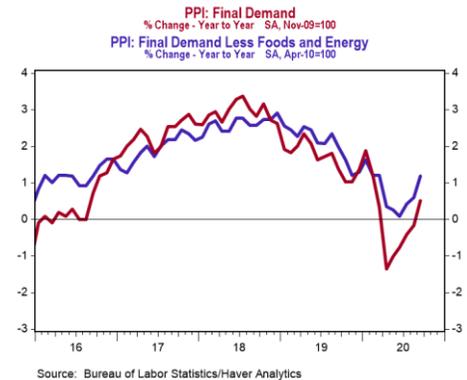


September PPI

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- The Producer Price Index (PPI) rose 0.4% in September versus a consensus expected 0.2%. Producer prices are up 0.4% versus a year ago.
- Food prices rose 1.2% in September, while energy prices fell 0.3%. Producer prices excluding food and energy rose 0.4% in September and are up 1.2% in the past year.
- In the past year, prices for goods are down 1.0%, while prices for services have risen 1.1%. Private capital equipment prices were unchanged in September, but are up 1.1% in the past year.
- Prices for intermediate processed goods rose 1.0% in September, but are down 1.5% versus a year ago. Prices for intermediate unprocessed goods jumped 3.9% in September but remain down 5.4% versus a year ago.

Implications: Producer prices continued to rise in September, and are up at the fastest three-month pace in nearly a decade, a sharp rebound from the steep price declines earlier this year. Prices for both good and services pushed the index higher, continuing the relatively broad-based movement in inflation over recent months. Digging into the details shows that a key contributor to the September rise came from the final demand services less trade, transportation, and warehousing (a bit of a catch-all category), which was boosted by a 3.9% increase in prices for travel accommodations. Wholesalers, too, continue to see margins expand, with trade service prices up 0.2% in September following a 1.2% jump in August and a 0.8% rise in July. With the lumber shortage continuing, the index for hardware, building materials, and supplies retailing remains a standout, rising 13.8% in September and up at a staggering 173.4% annualized rate over the past three months. On the goods side, the typically volatile food and energy categories continue to live up to their reputations, with energy prices falling 0.3% while food prices rose 1.2% on higher costs for vegetables, corn, and beef. Strip out these volatile categories, and “core” producer prices still rose 0.4% in September, just a tenth of a percent off the largest monthly increase in the series’ (short) history dating back to early 2010. Once again, shortages are a key driver of inflation, as iron and steel scrap prices rose 14.7% in September. Core producer prices are up a modest 1.2% over the past twelve months, but expect that to move higher in the months ahead. Supply constraints, limitations on activity, and the general economic disruptions related to COVID-19 will continue to muddy the data for the foreseeable future, but what is clear is the massive increase in the M2 money supply, up 23.6% in the past year. Once the dust finally settles – and it eventually will – we expect inflation to trend back to 2% and then higher. The Federal Reserve is loose and, as it has made abundantly clear, plans to stay that way for the foreseeable future. Meanwhile, businesses operating at limited capacity will remain a headwind to economic activity. The result will eventually be too much money chasing too few goods (and services), meaning higher – but not hyper – inflation. Further down the pipeline, prices for intermediate demand processed goods rose 1.0% in September, while intermediate demand unprocessed goods rose 3.9%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels. The data is starting to shift higher, though, tracking the emergence of the economy from what was a severe – but short – recession. We still have a long way to go to get back to where we were at the start of 2020, but the initial steps of recovery are under way, and we expect growth will march onward through the close of this year and beyond.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Sep-20	Aug-20	Jul-20	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.4%	0.3%	0.6%	5.6%	1.4%	0.4%
Goods	0.4%	0.1%	0.8%	5.4%	0.5%	-1.0%
- Ex Food & Energy	0.4%	0.3%	0.3%	4.1%	1.5%	1.3%
Services	0.4%	0.5%	0.5%	5.8%	1.8%	1.1%
Private Capital Equipment	0.0%	0.3%	0.9%	5.3%	2.2%	1.1%
Intermediate Demand						
Processed Goods	1.0%	0.6%	1.5%	12.9%	1.4%	-1.5%
- Ex Food & Energy	1.3%	0.5%	0.5%	9.3%	1.3%	0.3%
Unprocessed Goods	3.9%	7.0%	-0.7%	48.2%	14.7%	-5.4%
- Ex Food & Energy	7.2%	1.7%	0.3%	42.9%	13.9%	14.4%
Services	1.0%	0.7%	0.7%	10.0%	0.8%	0.3%

Source: Bureau of Labor Statistics