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Weekly Commentary

Rising inflation forces a tough choice

While the Producer Price Index (PPI) does not factor into the US Bureau of Economic Analysis calculation of the Personal Consumption Expenditures (PCE) index as much as the Consumer Price Index (CPI), it plays a key role as a forecast of retail inflation. That's because it describes the costs that manufacturers and wholesalers face in the creation and distribution of goods, including those headed for the consumer markets. If costs are rising for them, they have an unpleasant choice to make: allow the increases to cut into their margins or pass them onto consumers. The latter means that retail measures of inflation might rise. Last week, federal government releases of September CPI and PPI may have set the stage for that.

While headline CPI rose at a 0.6% month-over-month (m/m) rate in September, higher than the 0.4% rate in August, core CPI — which excludes volatile food and energy prices — was steady at 0.3%. Still too high for the Federal Reserve's liking, but not alarming.

However, headline PPI's 1.3% m/m rate far outpaced August's reading of 0.4%. Diesel fuel prices rose in September, but again, energy is not factored into the core reading, which also jumped: It increased to a 0.7% rate from 0.2% in August. Whether these figures are a harbinger of future consumer inflation won't be known until later, but they certainly do not augur well for the US economy.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

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