



Economics Group

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U.S. Producer Price Inflation Remains Soft

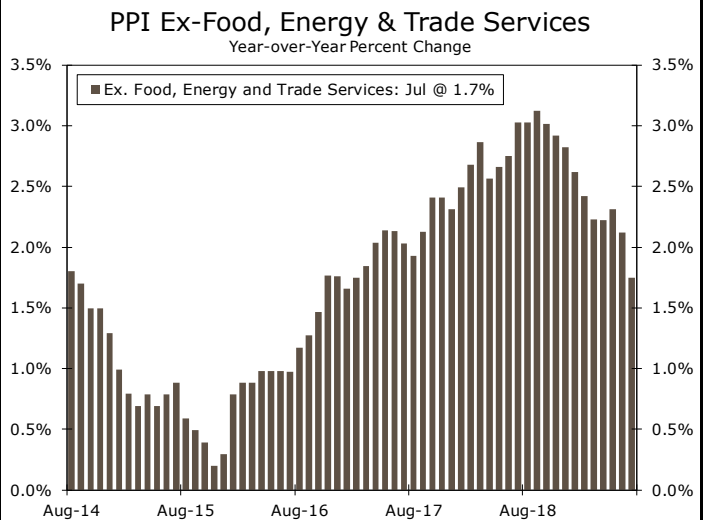
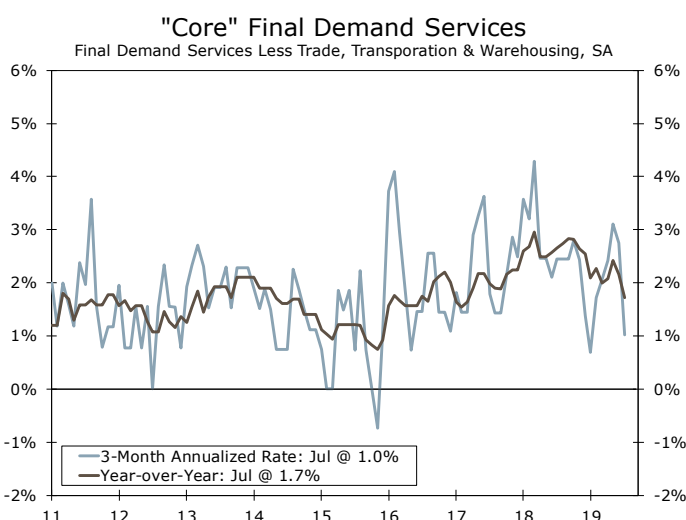
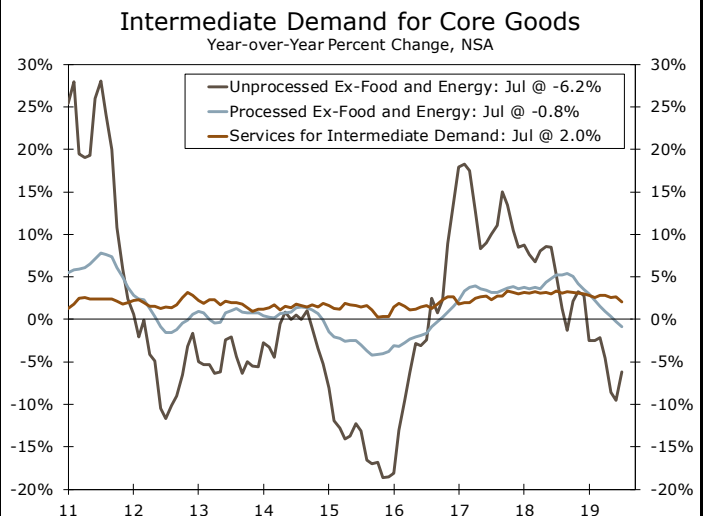
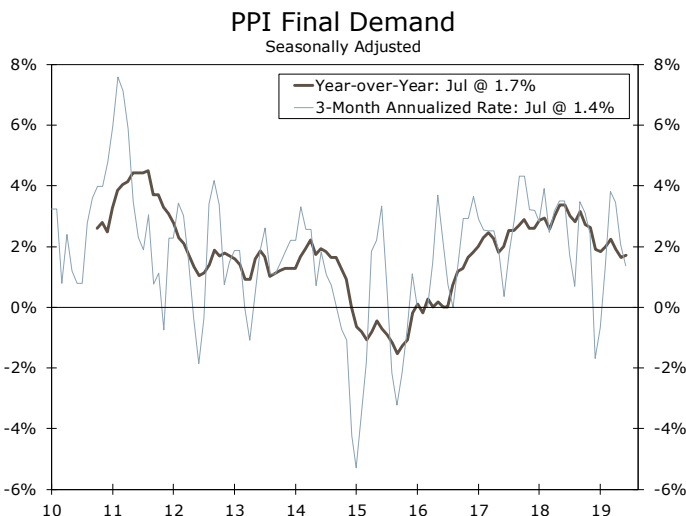
Producer prices rose 0.2% in July amid higher energy costs. Excluding food and energy, inflation is softening. Input costs show no signs of that trend reversing, giving space for the FOMC to ease policy again soon.

Services Costs Subdued in August

- A jump in energy prices pushed U.S. producer prices up 0.2% in July. The trend in inflation, however, remains tame. Ex-food and energy, goods prices were up 0.1%, while services prices fell for the first time since January. Specifically, services ex-trade, transportation & warehousing fell 0.3%. A major factor was a 4.3% drop in guestroom rental, which is highly volatile, while the healthcare index, which feeds into the PCE deflator, also eased.

Nothing to Stop the Fed From Easing Further

- Costs of domestically produced inputs show few signs of breaking higher. With the exception of energy, intermediate processed goods fell in July, as did inputs for services. That should help keep consumer goods inflation from running away even as more imports become subject to tariffs next month.
- Inflation will not prevent the Fed from easing more in the coming months, as our preferred measure of core PPI has slowed sharply.



Source: U.S. Department of Labor and Wells Fargo Securities

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