

12.Oct.2022

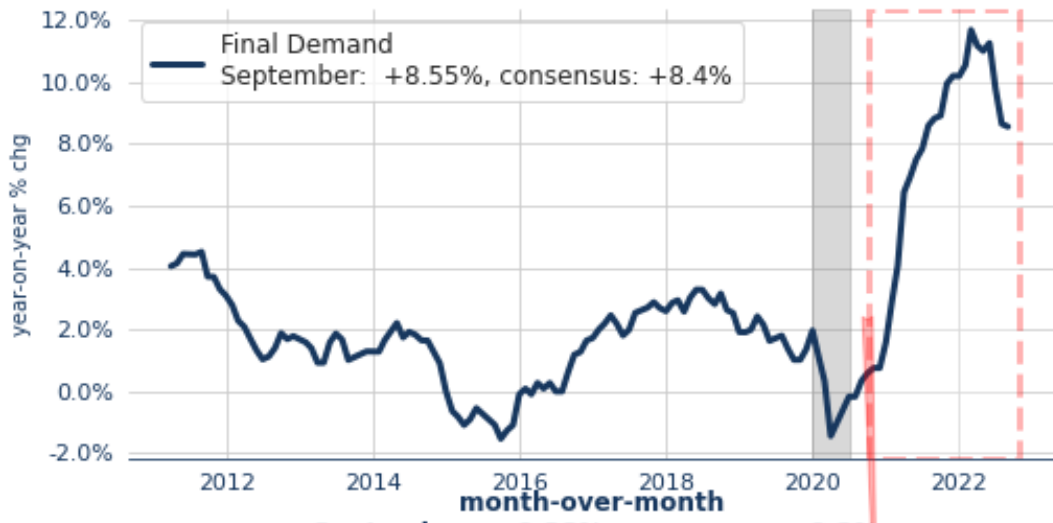
Producer Prices: Encouraging Deceleration

Bottom Line: Producer prices rose slightly more than expected in September due to higher food and energy prices, but the core final demand continued to moderate as expected. Moreover, the BLS revised August prices a touch lower. Prices of transportation and warehouse services (mostly the profit margin that this sector can charge) fell for the second month in September and were declining at a 7% annualized rate -- this is critical to seeing lower core prices since the sector drove much of the increase in the last two years (up 17% gains in 2021 and still up 17.8% year-over-year). Lower margins also pressured prices in apparel and jewelry retailing, airfares, investment management, and banking. Several processed goods categories were also lower, including chemicals, lumber, and steel mill products.

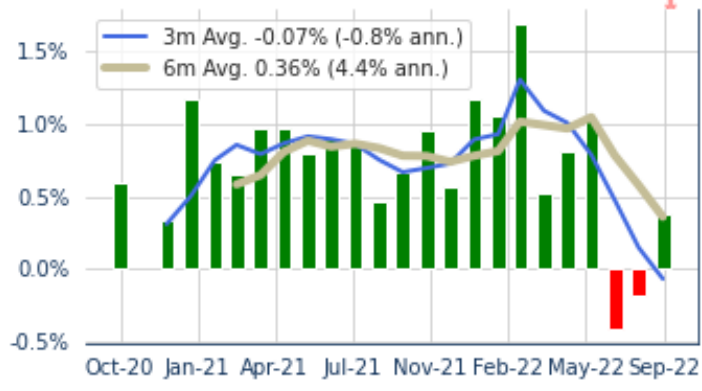
Overall, this report is a bit more encouraging than the headlines suggested. Producer prices were still down 0.85% annualized over the last three months, and core prices were up 3.5% annualized, a sharp deceleration from the 7.3% year-on-year pace and 8.7% pace of 2021. Moreover, several key sectors suggest producers see less pricing power.

Final Demand

September: +8.55%, consensus: +8.4%

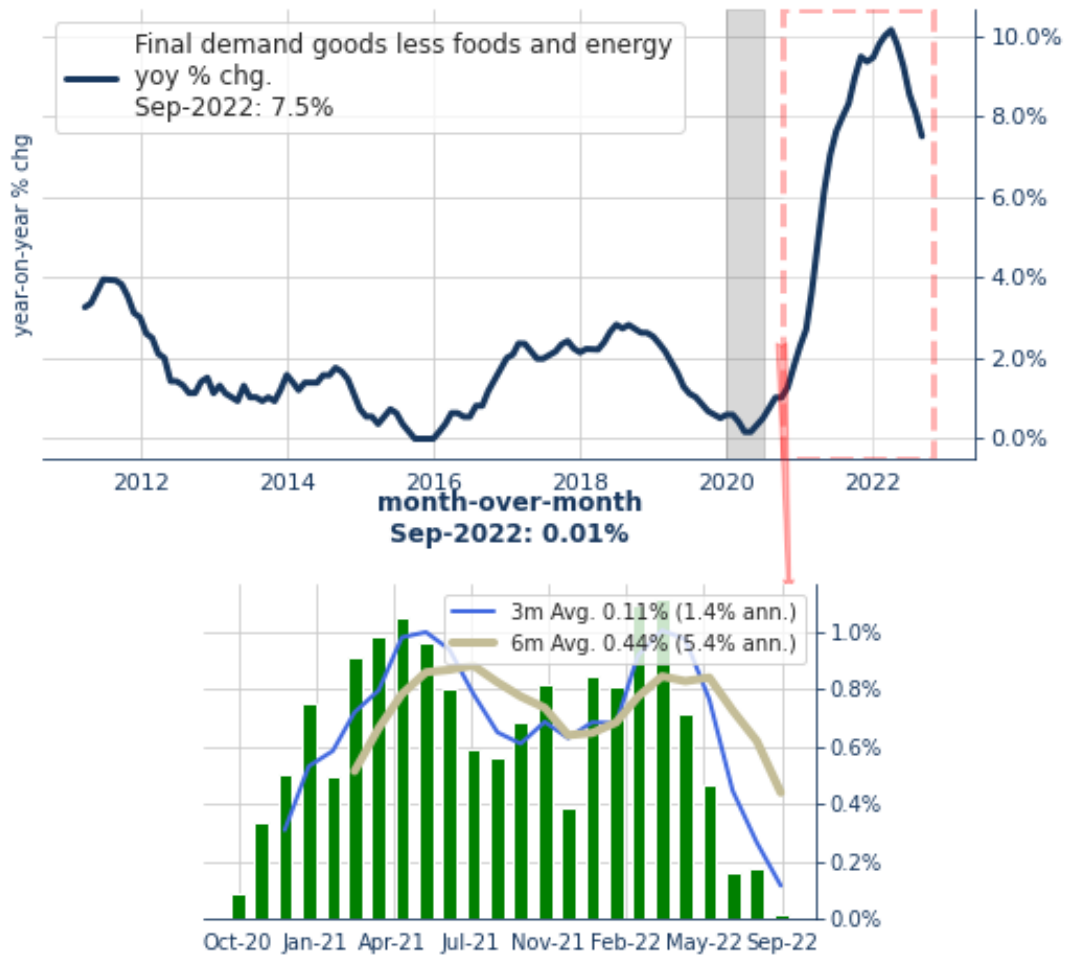


September: +0.38%, consensus: +0.2%



Contingent Macro Advisors 2022 source: US BEA

Final demand goods less foods and energy



Contingent Macro Advisors 2022 source: US BEA

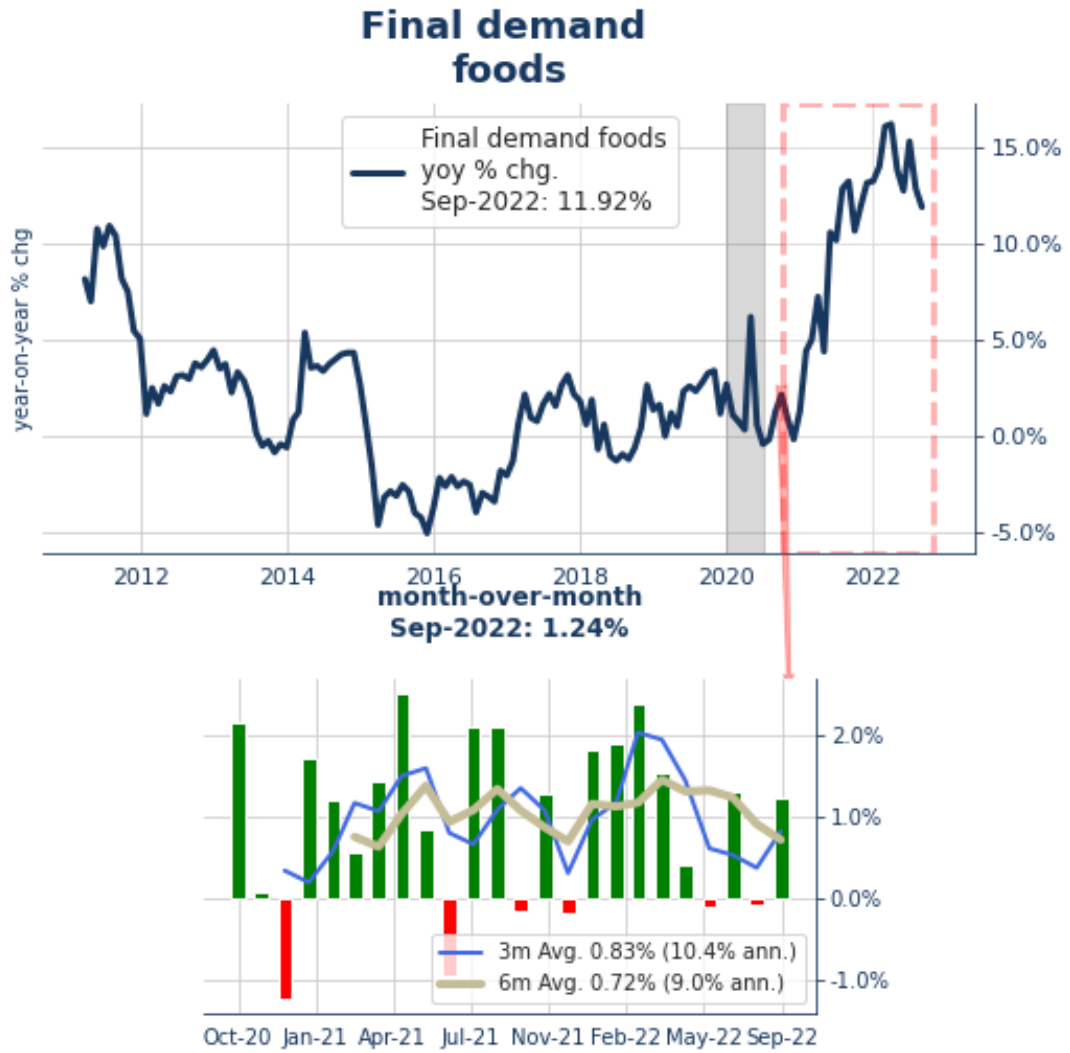
The PPI ROSE by 0.4% in September, compared with market expectations for a decline of 0.1%. Overall producer prices are 8.5% ABOVE the year-ago level.

The Goods PPI ROSE by 0.4% in September and is now 11.3% ABOVE its year-ago level. Food prices rose by 1.2% and are now 11.9% ABOVE their year-ago level. Meanwhile, energy prices rose by 0.7%. and are now 24.2% ABOVE their year-ago level. The Goods PPI less food and energy ROSE by 0.0%, and is now 7.5% ABOVE its year-ago level.

The Services PPI ROSE by 0.4% in September and is now 6.8% ABOVE its year-ago level.

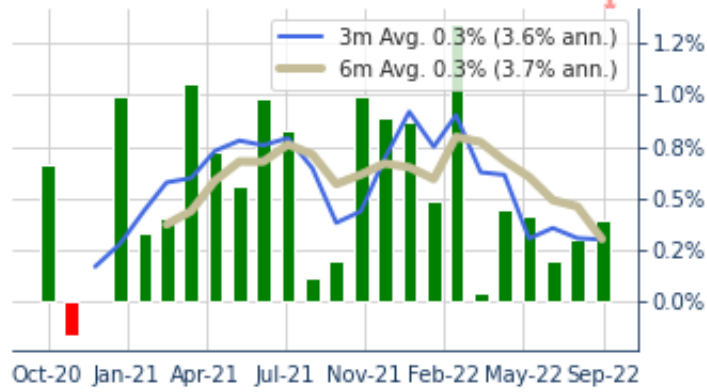
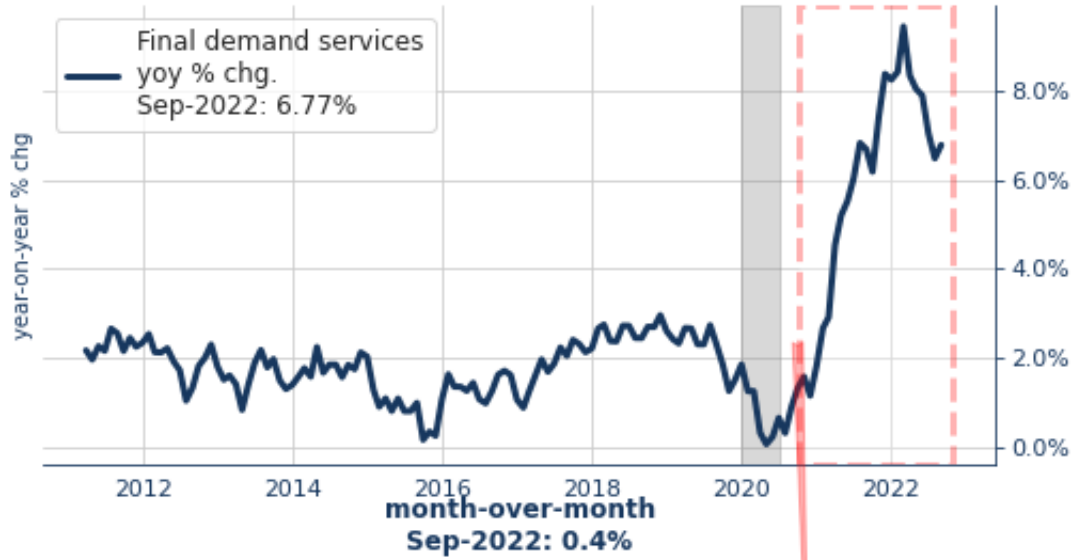
The Core PPI ROSE by 0.3%, compared with market expectations for an increase of

0.3%. Core producer prices are now 7.3% ABOVE their year-ago level.

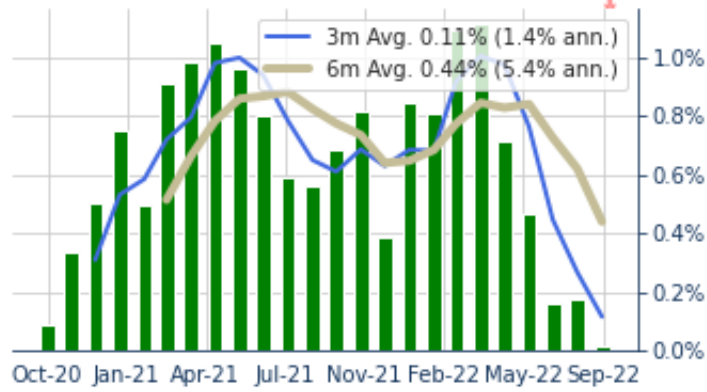
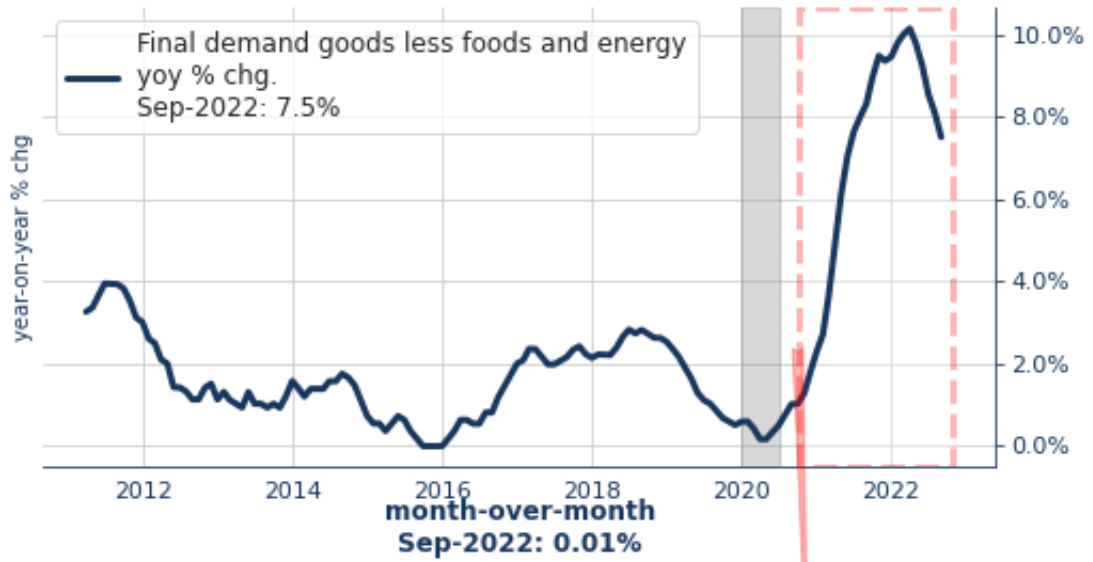


Contingent Macro Advisors 2022 source: US BEA

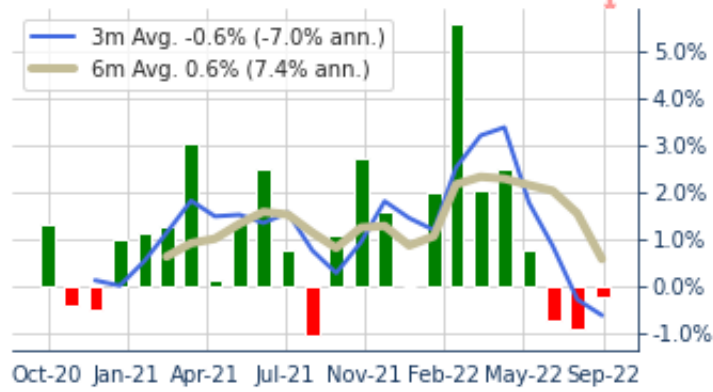
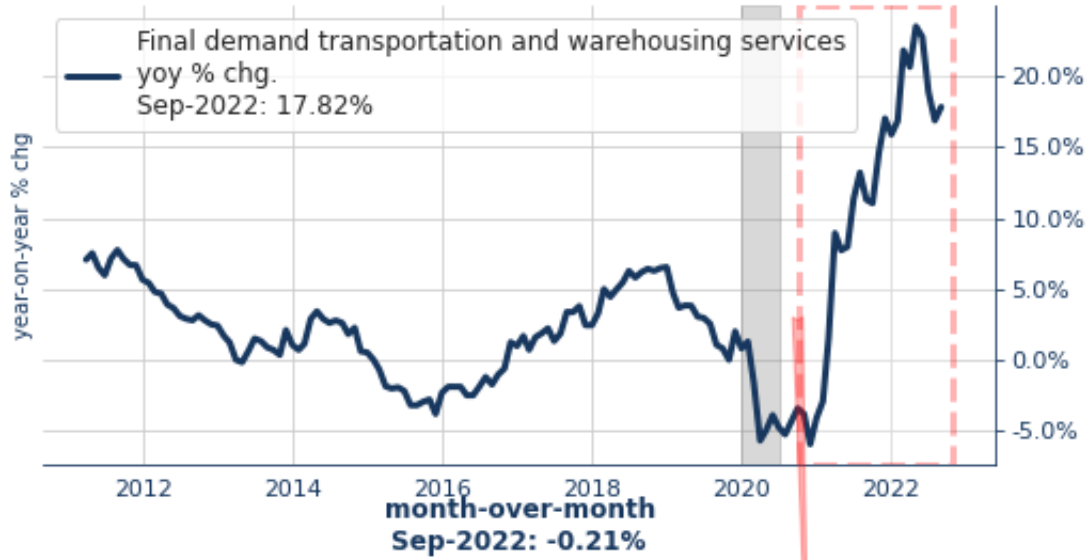
Final demand services



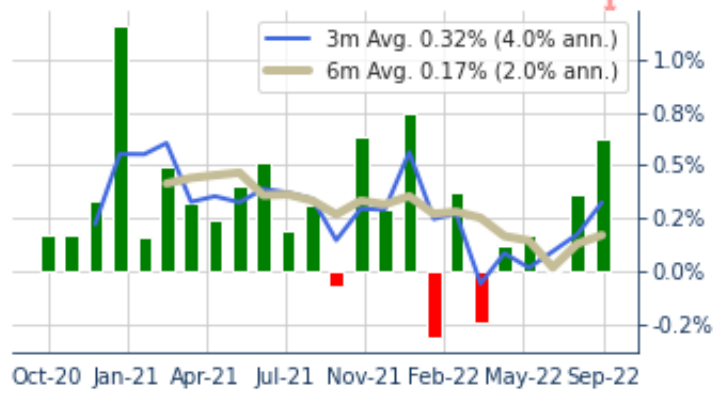
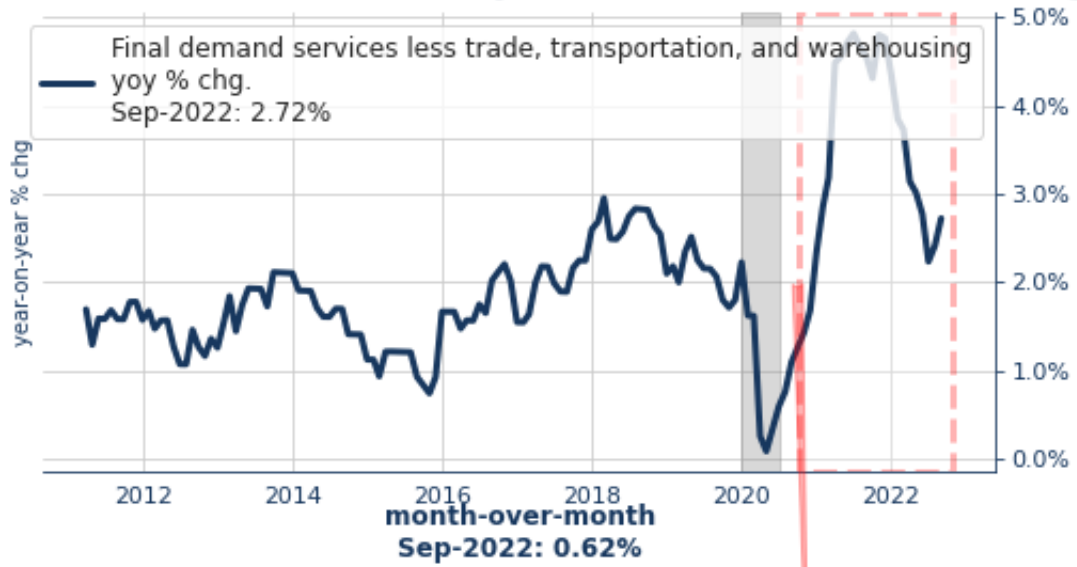
Final demand goods less foods and energy



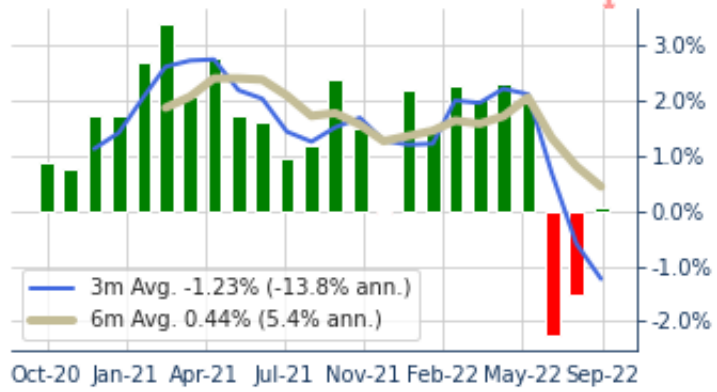
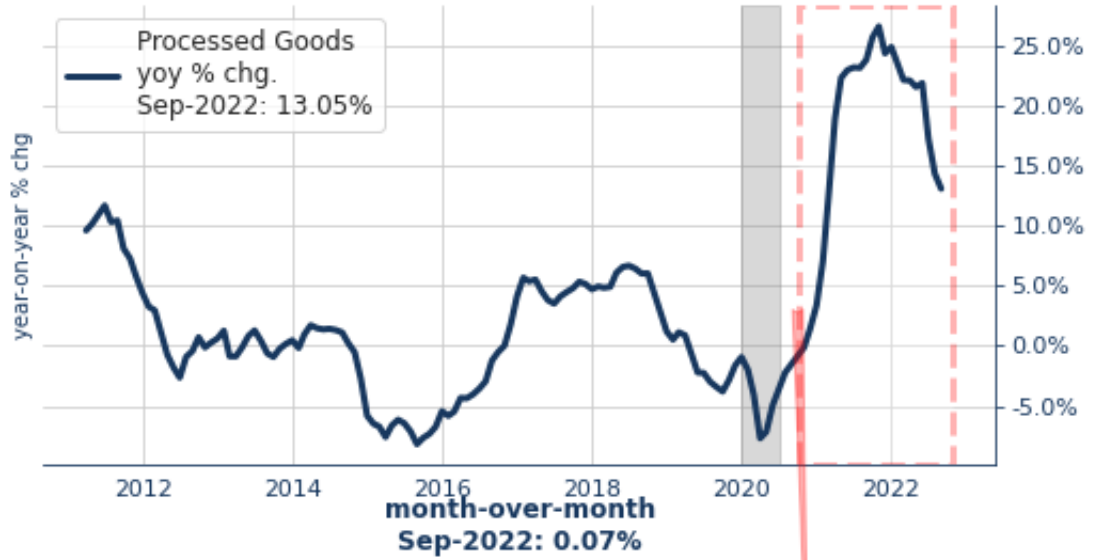
Final demand transportation and warehousing services



Final demand services less trade, transportation, and warehousing



Processed Goods



Unprocessed Goods



Contingent Macro Advisors 2022 source: US BEA

| US Producer Price Inflation | Sep-22 | Aug-22 | 3m ann % chg | 6m ann % chg | YoY % chg | 2021 | 2020 | 5y |
|--|--------------|---------------|---------------|--------------|--------------|---------------|--------------|--------------|
| Final Demand | 0.38% | -0.18% | -0.85% | 4.37% | 8.55% | 10.18% | 0.76% | 4.51% |
| Final demand less food and energy | 0.30% | 0.27% | 3.48% | 4.43% | 7.26% | 8.67% | 1.35% | 4.12% |
| Final demand goods | 0.36% | -1.10% | -9.67% | 4.85% | 11.30% | 13.69% | -0.09% | 5.40% |
| Final demand goods less foods and energy | 0.01% | 0.17% | 1.38% | 5.38% | 7.50% | 9.35% | 1.78% | 4.22% |
| Final demand services | 0.40% | 0.30% | 3.63% | 3.66% | 6.77% | 8.36% | 1.17% | 3.97% |
| Final demand trade services | 0.12% | 0.46% | 5.59% | 5.96% | 12.67% | 14.30% | 1.83% | 6.27% |

| | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|-------|
| Final demand transportation and warehousing services | -0.21% | -0.89% | -6.99% | 7.29% | 17.82% | 17.00% | -5.95% | 6.67% |
| Final demand construction | 0.36% | 0.26% | 24.58% | 22.08% | 23.09% | 12.17% | 1.16% | 8.65% |

Month-over-month % change for most recent months, followed by annualized % changes for periods noted. 5- and 10-year are simple averages of annual % changes.

| US PPI - Details | Sep-22 | Aug-22 | 3m ann % chg | 6m ann % chg | YoY % chg | 2021 | 2020 | 5y |
|--------------------------------|--------------|---------------|----------------|---------------|---------------|---------------|--------------|---------------|
| Processed Goods | 0.07% | -1.53% | -13.90% | 5.21% | 13.05% | 24.31% | 1.42% | 7.76% |
| Unprocessed Goods | 0.30% | 5.28% | -16.33% | 24.10% | 33.91% | 39.75% | 1.33% | 15.22% |
| Motor Vehicles | 0.06% | 0.25% | 3.11% | 5.35% | 3.75% | 2.50% | 0.70% | 1.65% |
| Pharmaceutical | 0.27% | 0.29% | 4.57% | 3.23% | 2.22% | 1.33% | 1.81% | 2.43% |
| Chemicals | -1.31% | -5.83% | -19.55% | 2.46% | 9.73% | 39.84% | -2.79% | 7.02% |
| Lumber | -3.93% | -4.94% | -26.24% | -53.97% | 6.49% | 18.98% | 38.86% | 6.35% |
| Steel Mill Products | -6.68% | -4.90% | -47.05% | -9.42% | -14.35% | 128.05% | 5.23% | 18.35% |
| Outpatient healthcare | -0.03% | -0.28% | -0.02% | 0.90% | 1.81% | 3.20% | 2.30% | 2.21% |
| Inpatient healthcare | 0.41% | -0.03% | 4.21% | 3.49% | 3.41% | 2.70% | 3.63% | 3.20% |
| Food and alcohol retailing | 2.57% | 1.02% | 22.25% | 26.02% | 19.97% | 8.39% | -0.66% | 6.25% |
| Apparel and jewelry retailing | -2.11% | 2.73% | -17.97% | -7.16% | -2.66% | 16.64% | -3.38% | 1.31% |
| Airline passenger services | -0.52% | 0.67% | -10.49% | 15.11% | 26.36% | 21.77% | -24.62% | 4.25% |
| Inv Mgmt & Brokerage | -1.84% | 9.58% | 34.27% | 16.32% | 4.07% | 8.43% | 3.47% | 2.99% |
| Business Loans | -1.74% | 14.10% | 110.37% | 84.83% | 37.95% | 14.17% | -12.04% | 8.89% |
| Legal Services | 0.78% | 0.41% | 6.36% | 3.94% | 5.25% | 4.20% | 4.28% | 4.13% |
| Truck Transport | -0.28% | -1.91% | -10.09% | 1.50% | 16.27% | 17.90% | 2.23% | 8.30% |
| Machinery & Equip. Wholesaling | 0.57% | -2.94% | -4.21% | -1.88% | 14.19% | 14.77% | 3.06% | 6.72% |

Month-over-month % change for most recent months, followed by annualized % changes for periods noted. 5- and 10-year are simple averages of annual % changes.