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PPI: No Disinflation Panic

The September PPI rises a more-than-expected 1.1% (Consensus: +0.8%; Decision Economics: +0.9%) despite a notably softer-than-expected flat result for the ex-food-and-energy, "core," index (Consensus and Decision Economics: +0.2%).

The core index result did not involve any unusually impactful price declines, but rather a genuine weakening in average price moves--though one that was more powerful among capital equipment items than among consumer goods. To that degree, the impact of the result on Fed thinking--which is formed around consumption prices--will be restrained.

The overall core figure incorporated a 0.1% decline in average capital equipment prices, with no powerful standout individual price declines, and a 0.2% rise in core consumer-goods prices. The consumer-goods increase, in turn, reflected a 0.1% rise for consumer durables and a 0.2% increase for core consumer non-durables.

There were no dominating items influencing either consumer-goods result--and both were low relative to their year-on-year increases--with the 0.1% rise in durables completing a twelve-month rise of 2.1%, while the 0.2% increase for core non-durables finished out a 3.3% rise year-on-year. The 0.1% decline foir capital equipment, meanwhile, compared with a 1.7% year-on-year rise.

Clearly, all of those comparisons point to some slowing over time, but there is not yet any suggestion of cumulating disinflation forces in the full picture--least of all on the consumer side, where both year-on-year results remain above target. Durables demand, meanwhile, is the only category of real consumer spending that is showing "normal" cyclical expansion at this point.

All of this should leave the FOMC debate unaltered, with hawks concerned by the fact that goods price inflation is bending very little, despite the long-time presence of slack, team-playing doves seeing no cause to move further, and hard core doves pressing for further ease, almost regardless of current conditions.

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