

NLWJC - Kagan

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Tobacco-Settlement: CPI

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS '97
WASHINGTON, D.C. 20502
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CR/EK -
One wonky issue
to resolve sometime -
whether to exempt
tobacco from CPI.
-BR

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: JEFFREY A. FRANKEL *JF*

SUBJECT: Producer Price Indexes for September, Labor Department Release, Friday, 8:30 a.m.

The producer price index for finished goods rose 0.5 percent in September--the second increase after seven consecutive months of decline. The increase was well above market expectations.

- Energy prices jumped 1.5 percent in September after a similar gain in August. In September, large increases were posted for residential electricity, residential gas, and gasoline. Despite the August and September increases, energy prices have fallen 0.1 percent over the past year.

The core PPI (finished goods less food and energy) rose 0.4 percent in September, the largest increase in almost 2 years. The market had expected a 0.2 percent increase. The acceleration was accounted for primarily by prices of motor vehicles and tobacco. Motor vehicle prices rose 1.2 percent as the end-of-model-year discounting was not as large as usual. Despite the September increase, motor vehicle prices were 1.6 percent below their year-earlier level. Excluding motor vehicles and tobacco, the core PPI rose 0.1 percent.

Over the past 12 months, the core PPI has increased 0.4 percent--down a full percentage point from its year-earlier pace. Next Thursday's report on consumer prices will provide a more complete picture of inflation.

PRODUCER PRICE INFLATION
over 12-month periods

