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November 21, 2013 • 630.517.7756 • www.ftportfolios.com

October PPI

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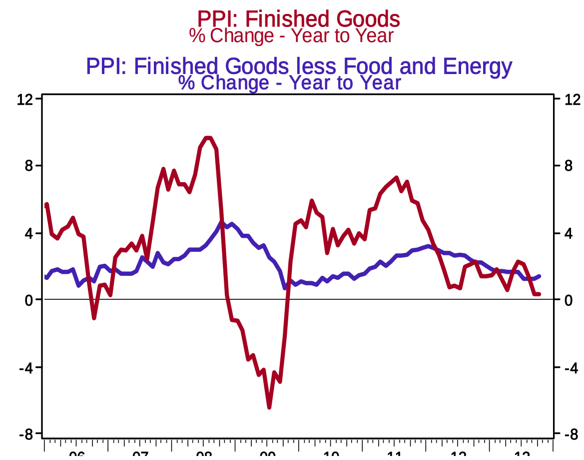
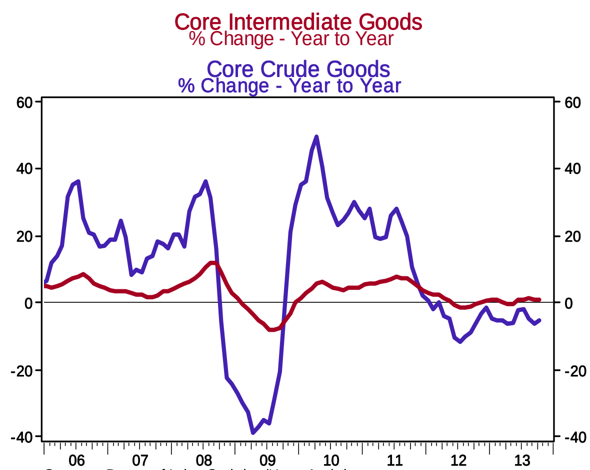
- The Producer Price Index (PPI) declined 0.2% in October, matching consensus expectations. Producer prices are up 0.3% versus a year ago.
- The decline in the overall PPI was due to energy, which dropped 1.5%. Food prices increased 0.8%. The "core" PPI, which excludes food and energy, rose 0.2% in October.
- Consumer goods prices declined 0.2% in October while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 0.1% while capital equipment prices are up 1.0%.
- Core intermediate goods prices declined 0.1% in October but are up 0.8% versus a year ago. Core crude prices declined 0.5% in October, and are down 5.1% versus a year ago.





Sources: Bureau of Labor Statistics /Haver Analytics

Implications: The wait for higher inflation continues. Overall producer prices declined 0.2% in October, led by a 1.5% drop in energy costs, which more than offset a 0.8% gain in food prices and a 0.2% increase in "core" prices, which exclude food and energy. Producer prices are up only 0.3% in the past year. "Core" producer prices are up 1.4% from a year ago, faster than the overall gain but not fast by the standards of the past several decades. As a result, some analysts still say the Federal Reserve has room to continue quantitative easing at the current pace of $85 billion per month. We think this would be a mistake. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth, but, for the time being, it won't lift inflation either. In other news this morning, initial claims for unemployment insurance fell 21,000 last week to 323,000. Continuing claims increased 66,000 to 2.87 million. However, the gain in continuing claims follows a drop of 64,000 the prior week, so the most recent gain just returned claims to around the level from two weeks before. Plugging these figures into our payroll models, we're now forecasting November payroll gains of 153,000, both nonfarm and private. On the manufacturing front, the Philly Fed index, a measure of factory sentiment in that region, slowed to a still positive +6.5 in November from +19.8 in October. The index has remained positive for six consecutive months, signaling continued expansion in the manufacturing sector.

Producer Price Index *All Data Seasonally Adjusted*	**Oct-13**	**Sep-13**	**Aug-13**	**3-mo % Ch.** ***annualized***	**6-mo % Ch.** ***annualized***	**Yr to Yr** ***% Change***
Finished Goods	**-0.2%**	-0.1%	0.3%	0.4%	2.8%	0.3%
Ex Food and Energy	**0.2%**	0.1%	0.0%	0.9%	1.1%	1.4%
Food	**0.8%**	-1.0%	0.6%	1.4%	2.8%	1.7%
Energy	**-1.5%**	0.5%	0.8%	-1.0%	7.6%	-3.4%
Consumer Goods	**-0.2%**	-0.1%	0.4%	0.0%	3.4%	0.1%
Capital Equipment	**0.1%**	0.3%	-0.1%	1.5%	1.1%	1.0%
Intermediate Goods	**-0.4%**	0.1%	0.0%	-0.8%	0.7%	-0.8%
Ex Food & Energy	**-0.1%**	0.1%	0.2%	0.8%	-0.3%	0.8%
Energy	**-1.2%**	0.3%	0.6%	-1.1%	4.6%	-5.0%
Crude Goods	**-0.9%**	0.5%	-2.7%	-11.8%	0.9%	-0.4%
Ex Food & Energy	**-0.5%**	-1.0%	-0.4%	-7.2%	-7.5%	-5.1%
Energy	**-2.9%**	2.0%	-2.7%	-13.5%	11.9%	7.3%

Source: Bureau of Labor Statistics