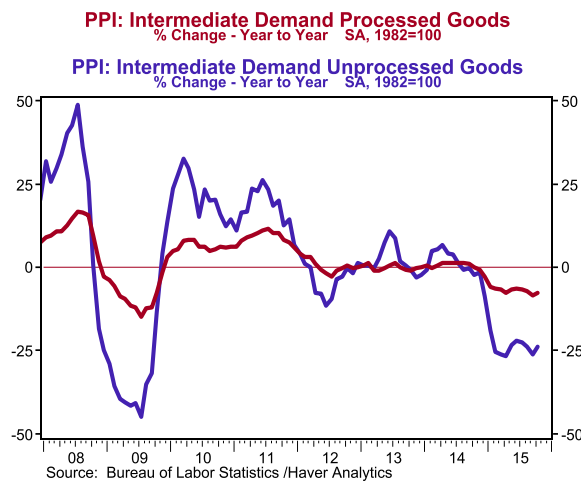
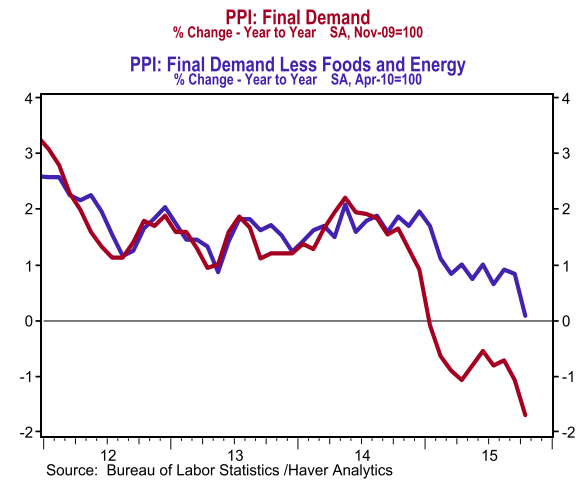


October PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Economist

- The Producer Price Index (PPI) dropped 0.4% in October, coming in well below the consensus expected gain of 0.2%. Producer prices are down 1.7% versus a year ago.
- The drop in producer prices in October was led by final demand services, down 0.3%. Food prices declined 0.8% in October while energy prices were unchanged. Producer prices excluding food and energy were down 0.3%.
- In the past year, prices for goods are down 5.0%, while prices for services are up 0.1%. Private capital equipment prices rose 0.2% in October and are unchanged in the past year.
- Prices for intermediate processed goods declined 0.4% in October and are down 7.6% versus a year ago. Prices for intermediate unprocessed goods were unchanged in October, and are down 23.6% versus a year ago.



Implications: Producer prices continued to plummet in October, as margins for wholesalers and falling food costs led the drop. The 0.4% decline in October comes on the back of September’s 0.5% decline, but unlike last month, energy wasn’t the culprit. Final demand service prices accounted for more than two-thirds of the drop in October, as margins for wholesalers and retailers fell 0.7%. Despite the fall in service prices over the past two months, prices for services are essentially unchanged in the past year, up a modest 0.1%. Goods prices also fell in October led by a 0.8% decline in food prices. Prices for goods are down 5% from a year ago. While energy prices were unchanged in October (after three consecutive months of declines), they still account for nearly the entire decline in producer prices over the past year. Excluding just energy, producer prices are down 0.1% in the past year, compared to a 1.7% decline when energy is included. The Fed has reiterated that falling energy prices are a transitory factor. So we think these declines will not play a significant role when they decide whether to raise rates in December. Core producer prices, which take out both the volatile food and energy components, declined 0.3% in October but are up 0.1% in the past year. In other words, we are not in a persistent deflationary environment. We’d like to see the Fed raise rates and think a rate hike in December remains likely. Holding short-term rates near zero distorts the nature and timing of economic and financial activity and our economy will eventually pay a price for that. In other recent economic news, still no sign of inflation in the trade sector. Import prices declined 0.5% in October and are down 10.5% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 3.4% from a year ago even excluding petroleum. Export prices declined 0.2% in October and are down 6.7% from a year ago.

Producer Price Index <i>All Data Seasonally Adjusted</i>	Oct-15	Sep-15	Aug-15	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	-0.4%	-0.5%	0.0%	-3.6%	0.0%	-1.7%
Goods	-0.4%	-1.2%	-0.6%	-8.4%	-0.6%	-5.0%
- Ex Food & Energy	-0.3%	0.0%	-0.2%	-1.8%	0.0%	0.0%
Services	-0.3%	-0.4%	0.4%	-1.1%	0.2%	0.1%
Private Capital Equipment	0.2%	-0.2%	-0.3%	-1.1%	0.0%	0.0%
Intermediate Demand						
Processed Goods	-0.4%	-1.5%	-0.6%	-9.3%	-2.2%	-7.6%
- Ex Food & Energy	-0.2%	-0.6%	-0.2%	-4.1%	-2.4%	-4.0%
Unprocessed Goods	0.0%	-3.1%	-4.4%	-26.5%	-12.3%	-23.6%
- Ex Food & Energy	-1.3%	-1.1%	-4.8%	-25.4%	-14.1%	-16.5%
Services	-0.4%	-0.7%	0.7%	-1.4%	-0.7%	0.5%

Source: Bureau of Labor Statistics