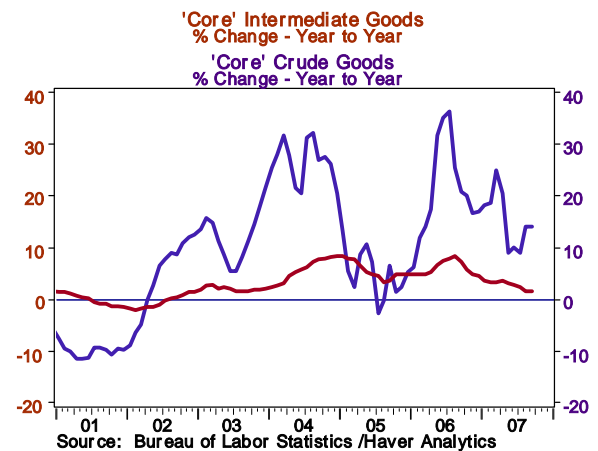
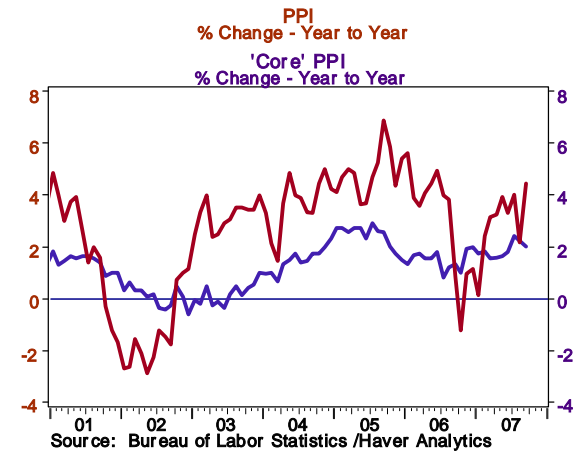


SEPTEMBER PPI

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- The Producer Price Index (PPI) increased 1.1% in September versus a consensus expected rise of 0.5%. The PPI is up 4.4% in the past twelve months (seasonally adjusted).
- Almost all the PPI's increase in September was due to energy prices, which rose 4.1%. The core PPI, which excludes food and energy prices, was up 0.1% versus a consensus expected gain of 0.2%. The core PPI is up 2.0% in the past year (seasonally adjusted).
- Consumer goods prices rose 1.5% in September and are up 5.2% in the past year (seasonally adjusted). Capital equipment prices declined 0.1% and are up 1.6% in the past year.
- Intermediate goods prices increased 0.4% in September and are up 4.0% versus last year. Crude prices increased 0.1% and are up 11.4% versus a year ago.

Implications: Inflation is breaking out to the upside. Producer prices are up 4.4% versus last year and year-to-year comparisons will be heading up over the next few months. Some analysts focus on core producer prices, which are up only 2% versus last year. However, we believe the core figures are relatively benign in large part due to higher food and energy prices, which erode purchasing power for the other items that make up the core. In this environment it is misleading to just exclude prices for goods going up the fastest (food and energy). Taking a long-term view, in the past five years producer prices are up at a 3.7% annual rate, near the most since 1980-85, while core producer prices are up at a 1.5% rate, near the most since 1991-96. Today's PPI data and signals of economic strength from retail sales, exports, and the labor market, add to our confidence that the Federal Reserve will not be cutting interest rates again later this year or early next year.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Sep-07	Aug-07	Jul-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	1.1%	-1.4%	0.6%	1.4%	3.7%	4.4%
Ex Food and Energy	0.1%	0.2%	0.1%	1.5%	2.0%	2.0%
Food	1.5%	-0.2%	-0.1%	4.7%	1.2%	5.8%
Energy	4.1%	-6.6%	2.5%	-1.5%	12.1%	10.2%
Consumer Goods	1.5%	-1.8%	0.7%	1.6%	4.4%	5.4%
Capital Equipment	-0.1%	0.1%	0.1%	0.3%	1.2%	1.6%
Intermediate Goods	0.4%	-1.2%	0.6%	-0.7%	4.8%	4.0%
Ex Food & Energy	0.1%	-0.5%	0.2%	-0.5%	3.4%	1.7%
Energy	1.1%	-3.7%	2.0%	-2.9%	9.4%	10.8%
Crude Goods	0.1%	-3.0%	1.2%	-6.6%	2.5%	11.4%
Ex Food & Energy	1.6%	1.3%	0.0%	12.4%	6.0%	14.0%
Energy	-2.0%	-5.6%	1.1%	-23.4%	-3.9%	0.8%

Source: Bureau of Labor Statistics