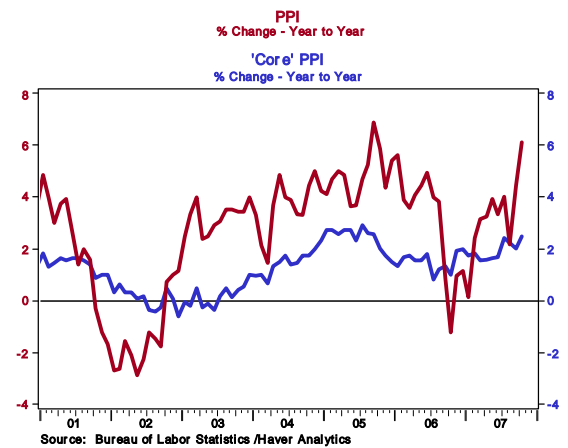


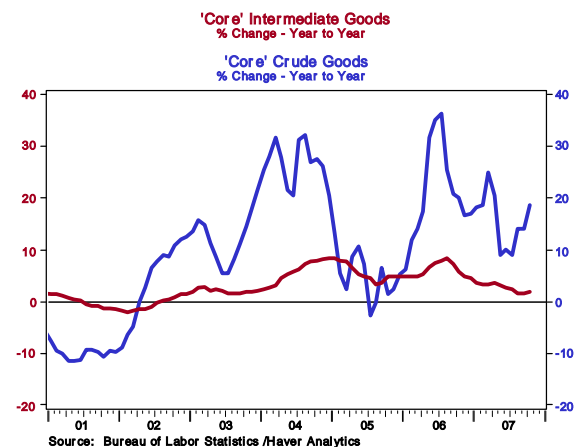
OCTOBER PPI

Chief Economist – Brian S. Wesbury
 Senior Economist – Robert Stein, CFA
 Economic Research Analyst – Trevor D. Scott

- The Producer Price Index (PPI) increased 0.1% in October versus a consensus expected rise of 0.3%. The PPI is up 6.0% in the past twelve months (seasonally adjusted).
- All the PPI's increase in October was due to food prices, which rose 1.0%. The core PPI, which excludes food and energy prices, was unchanged versus a consensus expected gain of 0.2%. The core PPI is up 2.5% in the past year (seasonally adjusted).
- Consumer goods prices rose 0.1% in October and are up 7.4% in the past year (seasonally adjusted). Capital equipment prices declined 0.1% and are up 1.9% in the past year.
- Intermediate goods prices increased 0.1% in October and are up 5.4% versus last year. Crude prices increased 2.4% and are up 25.6% versus a year ago.



Implications: The most illuminating part of today's report on producer prices was about energy. The energy price component of finished goods *fell* 0.8% while crude energy prices *rose* 5.9%. With oil prices up substantially in the past few months, crude energy is telling us the direction finished energy prices will be taking next month. Excluding energy, finished goods prices increased 0.3% in October. Meanwhile, the 6% increase in producer prices versus last year is, with the exception of the month affected by Hurricane Katrina, the largest 12-month increase since 1990. True, there was a large drop in the PPI last October which makes prices this October look higher by comparison. However, taking a long-term view, in the past five years producer prices are up at a 3.6% annual rate, near the most since 1980-85.



Producer Price Index All Data Seasonally Adjusted	Oct-07	Sep-07	Aug-07	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Finished Goods	0.1%	1.1%	-1.4%	-0.7%	2.1%	6.0%
Ex Food and Energy	0.0%	0.1%	0.2%	1.0%	1.7%	2.5%
Food	1.0%	1.5%	-0.2%	9.0%	2.0%	7.3%
Energy	-0.8%	4.1%	-6.6%	-13.6%	3.3%	16.1%
Consumer Goods	0.1%	1.5%	-1.8%	-0.7%	2.5%	7.4%
Capital Equipment	-0.1%	-0.1%	0.1%	-0.3%	0.8%	1.9%
Intermediate Goods	0.1%	0.4%	-1.2%	-2.8%	3.1%	5.4%
Ex Food & Energy	0.1%	0.1%	-0.5%	-0.9%	1.9%	1.9%
Energy	-0.1%	1.1%	-3.7%	-10.7%	6.1%	17.6%
Crude Goods	2.4%	0.1%	-3.0%	-2.3%	5.2%	25.6%
Ex Food & Energy	1.4%	1.6%	1.3%	18.9%	6.4%	18.8%
Energy	5.9%	-2.0%	-5.6%	-8.0%	6.3%	33.6%

Source: Bureau of Labor Statistics