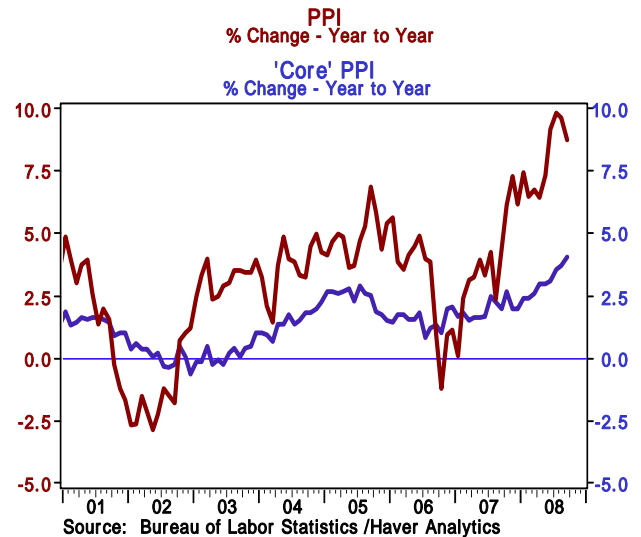


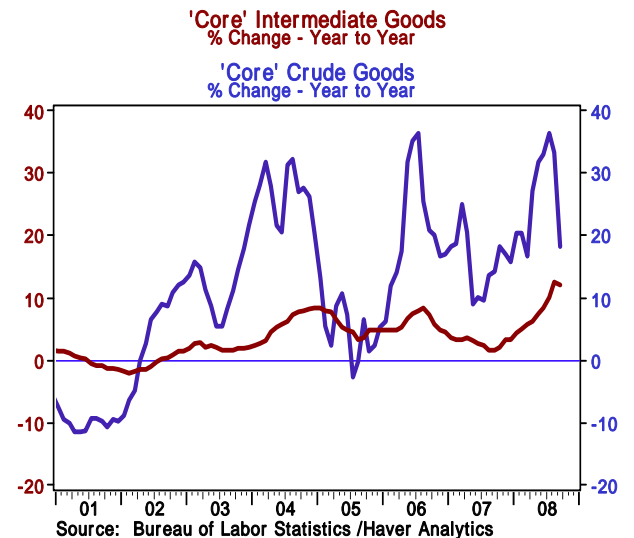
SEPTEMBER PPI

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- The Producer Price Index (PPI) declined 0.4% in September, exactly as the consensus expected. The PPI is up 8.7% in the past twelve months.
- All the drop in the PPI was due to energy, which fell 2.9% in September. The “core” PPI, which excludes food and energy, increased 0.4% in September and is up 4.0% versus last year, the most since 1991.
- Consumer goods prices declined 0.6% in September but are up 10.2% versus last year. Capital equipment prices rose 0.5% in September and are up 3.7% versus a year ago, the most since 1991.
- Intermediate goods prices fell 1.2% in September but are up 15.3% in the past year. Crude prices plummeted 7.9% in September but are still up 26.1% versus last year.



Implications: Rapidly declining energy prices are leading to reductions in producer prices. In July, producer prices were up 9.8% versus the prior year. Now the year-ago comparison is down to 8.7%. We expect further deceleration in the months ahead given the rapid slowdown in the velocity of money – the speed with which money changes hands in the economy. However, inflation remains a serious long-term problem and will re-emerge as soon as the velocity of money picks back up. “Core” PPI inflation, which excludes food and energy, is accelerating, up 0.4% in September, up at a 5.4% annual rate in the past three months, and up 4% versus last year, the most since 1991. As oil prices fall, more cash is shifting into other sectors of the economy. In other news this morning, the Empire State Index, a measure of manufacturing in New York State, fell to -24.6 in October, the lowest level ever (the index only dates back to mid-2001). This is consistent with our view that the economy will contract at a 1.5% annual rate in the fourth quarter.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Sep-08	Aug-08	Jul-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.4%	-0.9%	1.2%	-0.4%	6.8%	8.7%
Ex Food and Energy	0.4%	0.2%	0.7%	5.4%	4.9%	4.0%
Food	0.2%	0.3%	0.3%	3.1%	6.1%	8.1%
Energy	-2.9%	-4.6%	3.1%	-16.7%	12.4%	22.3%
Consumer Goods	-0.6%	-1.2%	1.2%	-2.3%	7.5%	10.2%
Capital Equipment	0.5%	0.1%	0.8%	5.6%	4.8%	3.7%
Intermediate Goods	-1.2%	-1.0%	2.7%	2.1%	13.3%	15.3%
Ex Food & Energy	-0.3%	1.7%	2.0%	14.2%	16.1%	12.1%
Energy	-3.8%	-8.2%	4.3%	-28.2%	5.6%	25.7%
Crude Goods	-7.9%	-11.9%	4.2%	-48.9%	-4.3%	26.1%
Ex Food & Energy	-9.4%	-1.9%	3.4%	-28.4%	7.7%	18.4%
Energy	-11.7%	-19.4%	6.9%	-66.5%	-8.1%	41.6%

Source: Bureau of Labor Statistics