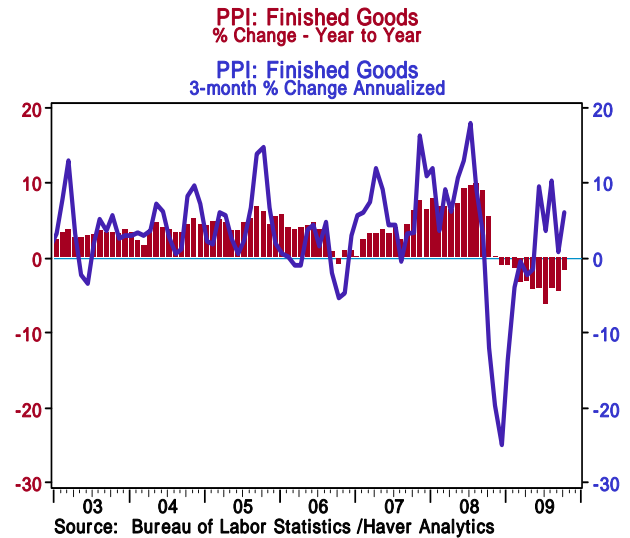


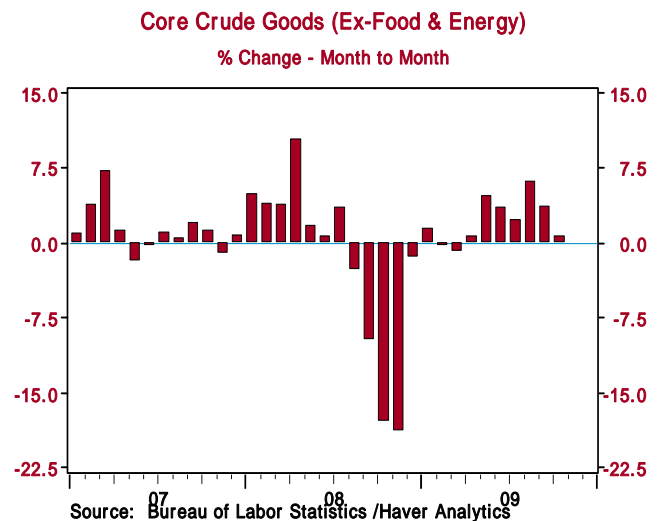
# OCTOBER PPI

Chief Economist – Brian S. Wesbury  
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) increased 0.3% in October, coming in below the consensus expected 0.5% increase. The PPI is down 1.9% versus a year ago, but up at a 4.8% annual rate in the past six months.
- The October increase in the PPI was all attributable to food and energy, each of which increased 1.6%. The “core” PPI, which excludes food and energy, declined 0.6%.
- Consumer goods prices increased 0.6% in October and are up at a 6.7% annual rate in the past six months. Capital equipment prices decreased 0.7% in October and are down at a 0.9% annual rate in the past six months.
- Intermediate goods prices increased 0.3% in October and are up at a 7.6% annual rate in the past six months. Crude prices increased 5.4% in October and are up at a 24.2% annual rate in the past six months.



**Implications:** Inflation continues to be a growing problem. Producer prices increased 0.3% in October and are up at a 4.8% annual rate in the past six months. Some analysts may take solace from the fact that the “core” PPI (which excludes food and energy) fell an unusually sharp 0.6% in October and is down at a 0.3% rate in the past six months. However, most of the decline in core prices in October was due to light trucks used as capital equipment. Wild shifts in light truck prices sometimes happen in October due to the introduction of the new model year. Meanwhile, core inflation further up the production pipeline is getting worse. In the past six months, core intermediate prices are up at a 3% annual rate and core crude prices are up at a 50% rate. What is most concerning is that the Federal Reserve continues to cling to an excessively loose monetary policy, ignoring the stream of data showing the economy is improving and prices are rising. This policy stance, along with the revival in monetary velocity (due to the end of the financial panic), means even higher inflation is going to hit the US economy over the next couple of years.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Oct-09	Sep-09	Aug-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
<b>Finished Goods</b>	<b>0.3%</b>	-0.6%	1.7%	6.0%	4.8%	-1.9%
<i>Ex Food and Energy</i>	<b>-0.6%</b>	-0.1%	0.2%	-1.8%	-0.3%	0.7%
<i>Food</i>	<b>1.6%</b>	-0.1%	0.4%	7.8%	-0.2%	-2.5%
<i>Energy</i>	<b>1.6%</b>	-2.4%	8.0%	31.4%	28.5%	-9.4%
<b>Consumer Goods</b>	<b>0.6%</b>	-0.7%	2.3%	9.1%	6.7%	-2.3%
<i>Capital Equipment</i>	<b>-0.7%</b>	-0.1%	0.3%	-2.0%	-0.9%	0.1%
<b>Intermediate Goods</b>	<b>0.3%</b>	0.2%	1.8%	9.7%	7.6%	-7.5%
<i>Ex Food &amp; Energy</i>	<b>-0.2%</b>	0.9%	0.6%	5.5%	3.0%	-5.6%
<i>Energy</i>	<b>2.3%</b>	-2.1%	7.1%	32.7%	31.9%	-13.1%
<b>Crude Goods</b>	<b>5.4%</b>	-2.1%	3.8%	31.5%	24.2%	-13.9%
<i>Ex Food &amp; Energy</i>	<b>0.5%</b>	3.6%	6.0%	48.6%	49.6%	-1.5%
<i>Energy</i>	<b>8.3%</b>	-5.4%	6.9%	43.8%	49.9%	-22.9%

Source: Bureau of Labor Statistics