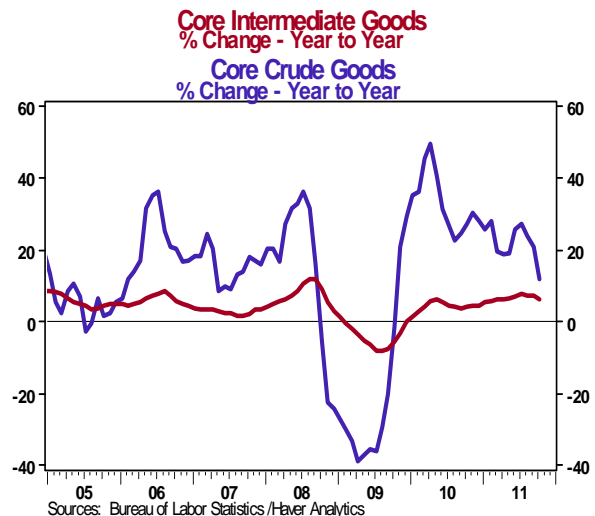


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October PPI

- The Producer Price Index (PPI) fell 0.3% in October, coming in below the consensus expected decline of 0.1%. Producer prices are up 5.9% versus a year ago.
- The decline in PPI in October was due to a 1.4% fall in energy prices. Food prices increased 0.1%. The “core” PPI, which excludes food and energy, remained unchanged.
- Consumer goods prices slipped 0.4% in October but are up 7.3% versus last year. Capital equipment prices dipped 0.1% in October but are up 2.0% in the past year.
- Core intermediate goods prices fell 0.6% in October but are up 6.3% versus a year ago. Core crude prices fell 4.3% in October but are up 11.8% in the past twelve months.

Implications: After a large gain in September, producer prices took a breather in October pulling back 0.3%. Lower energy prices led the way, dropping 1.4%. Core prices, which exclude food and energy, were unchanged in October. Although inflation was obviously not a problem in October, it would be a big mistake for the Federal Reserve to think there is now room for a third round of quantitative easing. Producer prices are still up 5.9% versus a year ago and, given the rise in oil prices so far in November, the headline report on producer prices a month from now is going to jump right back into positive territory. Core prices for finished goods are up 2.8% in the past year, but core intermediate goods are up 6.3% while core crude goods are up 11.8%. In other news this morning, the Empire State index, a measure of manufacturing in New York, increased to +0.6 in November from -8.5 in October. The gain in November was the first move into positive territory since May. Nationwide, manufacturing output has continued to increase since May, suggesting the index was artificially held down by negative financial sentiment coming from Europe, Japan, the debt deal, the debt downgrade, market volatility and forecasts of recession. That negative sentiment now appears to be declining.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Oct-11	Sep-11	Aug-11	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.3%	0.8%	0.0%	1.9%	1.4%	5.9%
Ex Food and Energy	0.0%	0.2%	0.1%	1.1%	2.4%	2.8%
Food	0.1%	0.6%	1.1%	7.0%	3.5%	7.5%
Energy	-1.4%	2.3%	-1.0%	-0.4%	-3.1%	13.8%
Consumer Goods	-0.4%	1.0%	0.0%	2.6%	1.2%	7.3%
Capital Equipment	-0.1%	0.2%	-0.1%	0.0%	1.6%	2.0%
Intermediate Goods	-1.1%	0.6%	-0.5%	-4.1%	-0.2%	8.4%
Ex Food & Energy	-0.6%	0.2%	-0.1%	-2.0%	0.8%	6.3%
Energy	-2.6%	1.7%	-2.3%	-12.1%	-3.9%	14.9%
Crude Goods	-2.5%	2.8%	0.2%	1.6%	-10.8%	12.6%
Ex Food & Energy	-4.3%	1.0%	1.6%	-6.9%	-3.0%	11.8%
Energy	-2.2%	7.7%	-5.1%	-0.3%	-22.0%	9.7%

Source: Bureau of Labor Statistics