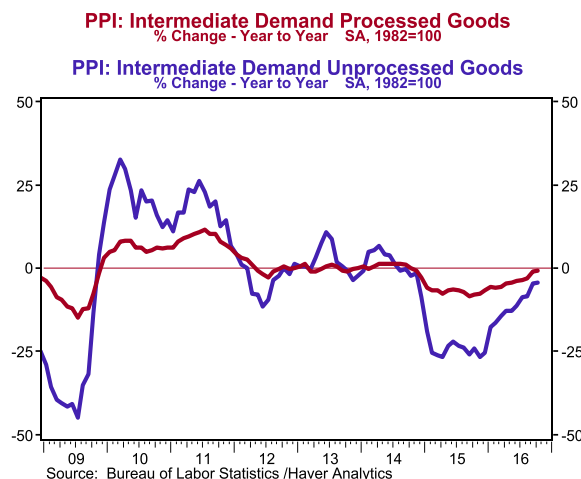
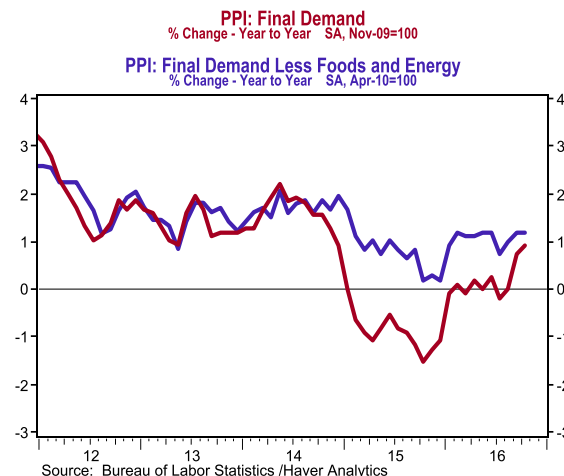


# October PPI

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- The Producer Price Index (PPI) was unchanged in October, coming in below the consensus expected rise of 0.3%. Producer prices are up 0.9% versus a year ago.
- Energy prices increased 2.5% in October, while food prices declined 0.8%. Producer prices excluding food and energy fell 0.2%.
- In the past year, prices for services are up 1.2%, while prices for goods are up 0.3%. Private capital equipment prices increased 0.3% in October and are up 1.6% in the past year.
- Prices for intermediate processed goods rose 0.3% in October but are down 0.5% versus a year ago. Prices for intermediate unprocessed goods declined 0.6% in October and are down 4.1% versus a year ago.

**Implications:** Producer prices were flat in the month of October, but continue to accelerate on an annual basis, with the change in prices from a year ago showing the largest increase in nearly two years. Service prices declined 0.3% in October, led by declining costs for securities brokerage, dealing, investment advice, and related services, which fell 5.7% - the BLS says this was a function of low interest rates. That's clearly changed. But, while services prices are only up a moderate 0.2% at an annual rate over the last six months – prices for goods are accelerating. Goods prices rose 0.4% in October led by a 2.5% jump in energy prices which more than offset a 0.8% decline in food prices. Since mid-2014, goods prices, impacted by falling energy costs, have largely trailed those for services. This is reversing as oil prices rise, and goods prices are up at a 3.8% annual rate in the past six months, a sharp acceleration from the year-to-year increase of just 0.3%. We expect that story to continue in the months ahead as a headwind from energy turns into a tailwind. As with consumer prices, we expect that tailwind to push producer prices toward the Fed's 2% inflation target. Stripping out the volatile food and energy categories, "core" producer prices declined 0.2% in October but are up 1.2% in the past year, a significant pickup from the 0.2% rise through the twelve months ending October 2015. Taken as a whole, today's benign report on inflation is unlikely to sway the Fed away from a December rate hike that looks all but assured at this point. Barring a large surprise to the downside for the November jobs report, we will finally see the long awaited (and clearly appropriate) next step towards making monetary policy slightly less loose.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Oct-16</b>	<b>Sep-16</b>	<b>Aug-16</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Final Demand</b>	<b>0.0%</b>	0.3%	0.0%	1.1%	1.5%	0.9%
<b>Goods</b>	<b>0.4%</b>	0.7%	-0.4%	2.6%	3.8%	0.3%
- Ex Food & Energy	<b>0.1%</b>	0.3%	0.1%	1.8%	1.5%	1.3%
<b>Services</b>	<b>-0.3%</b>	0.1%	0.1%	-0.4%	0.2%	1.2%
<b>Private Capital Equipment</b>	<b>0.3%</b>	0.2%	-0.4%	0.4%	-0.2%	1.6%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.3%</b>	0.5%	-0.1%	2.9%	5.4%	-0.5%
- Ex Food & Energy	<b>0.2%</b>	0.3%	0.3%	3.0%	2.7%	0.3%
<b>Unprocessed Goods</b>	<b>-0.6%</b>	1.3%	-2.8%	-8.1%	4.7%	-4.1%
- Ex Food & Energy	<b>-1.1%</b>	-1.4%	0.8%	-6.5%	1.8%	2.2%
<b>Services</b>	<b>-0.6%</b>	0.4%	0.0%	-0.7%	1.1%	2.3%

Source: Bureau of Labor Statistics