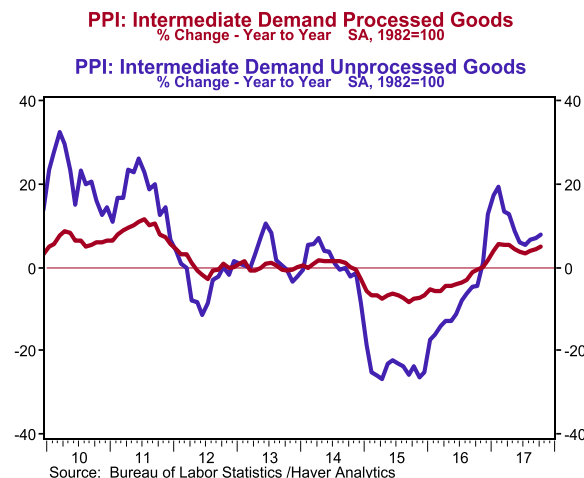
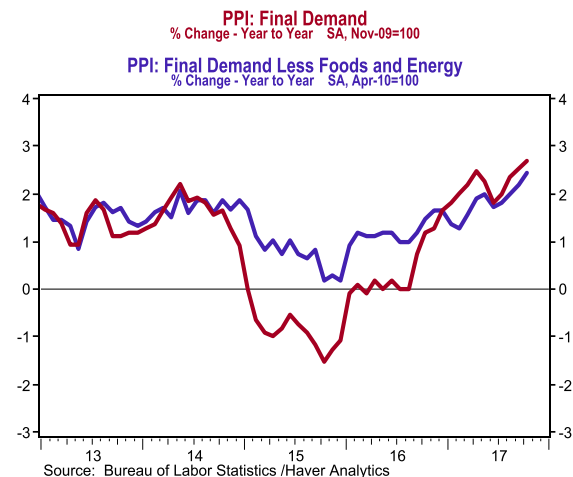


October PPI

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- The Producer Price Index (PPI) increased 0.4% in October, well above the consensus expected rise of 0.1%. Producer prices are up 2.8% versus a year ago.
- Food prices rose 0.5% in October, while energy prices were unchanged. Producer prices excluding food and energy rose 0.4%.
- In the past year, prices for goods are up 3.2%, while prices for services are up 2.4%. Private capital equipment prices rose 0.3% in October and are up 2.7% in the past year.
- Prices for intermediate processed goods rose 1.0% in October and are up 5.0% versus a year ago. Prices for intermediate unprocessed goods were unchanged in October but are up 7.7% versus a year ago.

Implications: Producer prices rose much faster than expected in October, with nearly every category moving higher. Prices for services led the way, rising 0.5% in October as margins for fuel and lubricant dealers surged 24.9% (it's not unusual to see large swings in this category from month-to-month). In fact, nearly every category in today's report shows inflation pressures that are likely to flow through to consumer prices in the months ahead. Goods prices rose 0.3% in October, with pharmaceuticals and industrial chemicals leading the way. Food prices rose 0.5% following three months of flat or declining prices, while energy prices (typically one of the more volatile components month-to-month) was unchanged in October. "Core" producer prices – which exclude both food and energy – rose 0.4% in October and are up 2.4% in the past year. That represents the fastest twelve-month rise since early 2012. There may still be remnants of hurricane impacts in the pricing data, but that's starting to subside, and producer prices have now been at or above 2% on a year-to-year basis in seven of the last nine months. In other words, prices were moving higher well before the storms touched down in Texas and Florida. A look further down the pipeline shows the trend higher should continue in the months to come. Intermediate processed goods rose 1.0% in October and are up 5.0% from a year ago, while unprocessed goods were unchanged in October but remain up 7.7% in the past year. Given these figures, it would be difficult for the "data dependent" Fed to cite current inflation trends as a reason to hold off on continued rate hikes. And with employment growth remaining strong, Chairwoman Yellen, and her successor Jerome Powell, look to have a clear runway for gradual but steady rate hikes into 2018.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-17	Sep-17	Aug-17	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.4%	0.4%	0.2%	4.3%	2.3%	2.8%
Goods	0.3%	0.7%	0.5%	5.9%	1.6%	3.2%
- Ex Food & Energy	0.3%	0.3%	0.2%	2.9%	1.4%	2.3%
Services	0.5%	0.4%	0.1%	3.9%	2.7%	2.4%
Private Capital Equipment	0.3%	0.4%	0.3%	3.6%	3.1%	2.7%
Intermediate Demand						
Processed Goods	1.0%	0.5%	0.4%	8.0%	3.7%	5.0%
- Ex Food & Energy	0.8%	0.2%	0.4%	5.5%	2.2%	3.8%
Unprocessed Goods	0.0%	-0.4%	-0.7%	-4.2%	-3.8%	7.7%
- Ex Food & Energy	-3.7%	2.0%	0.9%	-3.5%	0.4%	12.3%
Services	0.3%	0.1%	0.2%	2.1%	1.9%	2.9%

Source: Bureau of Labor Statistics