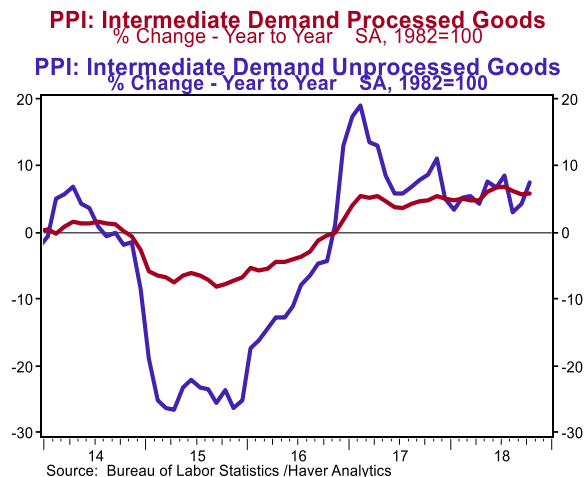
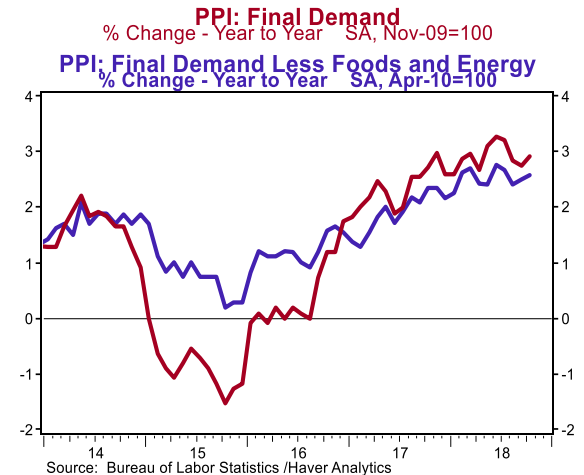


October PPI

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- The Producer Price Index (PPI) rose 0.6% in October, well above the consensus expected rise of 0.2%. Producer prices are up 2.9% versus a year ago.
- Energy prices rose 2.7% in October, while food prices increased 1.0%. Producer prices excluding food and energy rose 0.5% in October and are up 2.6% in the past year.
- In the past year, prices for goods are up 3.6%, while prices for services are up 2.4%. Private capital equipment prices rose 0.5% in October and are up 3.1% in the past year.
- Prices for intermediate processed goods rose 0.8% in October and are up 5.9% versus a year ago. Prices for intermediate unprocessed goods rose 3.6% in October and are up 7.8% versus a year ago.

Implications: Producer prices surged 0.6% in October, the largest single-month increase in more than six years. And while the typically volatile food (up 1.0% in October) and energy (up 2.7%) components helped push prices higher, stripping out these components shows “core” prices rose 0.5% in October – matching the largest single-month increases since this series was introduced in 2010 - and are up 2.6% in the past year. So what caused the jump? A look at the details for October shows the rise was led by increased margins to wholesalers, which rose 1.6%. This could be a sign of rising demand paired with limited supply; ISM reports have shown strong order and business activity, but companies struggling to hire and ship products due to a tight labor market. Or it could simply be companies adjusting prices higher following months of rising input costs cutting into margins; remember, these wholesaler margins fell at a 3.7% annual rate over the prior three months. But it’s not just margins, rising prices were broad-based as services prices rose 0.7% in October while goods prices increased 0.6%. No matter which way you cut – headline prices up 2.9% in the past year or “core” prices up 2.6% - trend inflation clearly stands above the Fed’s 2% target. These data support our expectation for one more hike this year and four hikes in 2019. In recent employment news, initial jobless claims fell 1,000 last week to 214,000. Meanwhile, continuing claims fell 8,000 to 1.62 million, the lowest reading since 1973! These figures are consistent with continued robust job gains in November.



| Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i> | Oct-18 | Sep-18 | Aug-18 | 3-mo % Ch. <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|--|---------------|---------------|---------------|--|--|------------------------------------|
| Final Demand | 0.6% | 0.2% | -0.1% | 2.8% | 3.0% | 2.9% |
| Goods | 0.6% | -0.1% | 0.0% | 2.1% | 3.2% | 3.6% |
| - Ex Food & Energy | 0.0% | 0.2% | 0.0% | 0.7% | 1.7% | 2.5% |
| Services | 0.7% | 0.3% | -0.1% | 3.5% | 3.0% | 2.4% |
| Private Capital Equipment | 0.5% | 0.3% | -0.3% | 2.5% | 3.2% | 3.1% |
| Intermediate Demand | | | | | | |
| Processed Goods | 0.8% | 0.0% | 0.0% | 3.4% | 5.8% | 5.9% |
| - Ex Food & Energy | 0.4% | 0.2% | 0.2% | 3.2% | 5.0% | 5.0% |
| Unprocessed Goods | 3.6% | 1.7% | -5.8% | -3.1% | 5.0% | 7.8% |
| - Ex Food & Energy | 0.0% | -2.8% | -1.9% | -17.1% | -11.5% | 0.8% |
| Services | 0.4% | 0.5% | 0.1% | 4.1% | 3.2% | 3.2% |

Source: Bureau of Labor Statistics