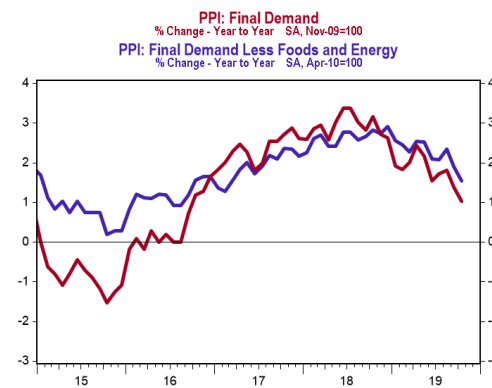


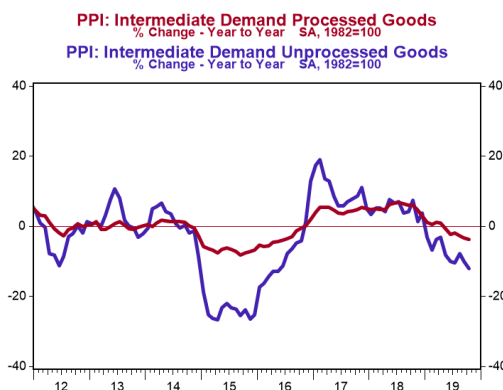
October PPI

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

- The Producer Price Index (PPI) rose 0.4% in October, coming in above the consensus expected increase of 0.3%. Producer prices are up 1.1% versus a year ago.
- Energy prices rose 2.8% in October, while food prices rose 1.3%. Producer prices excluding food and energy increased 0.3% in October and are up 1.6% in the past year.
- In the past year, prices for goods are down 0.6%, while prices for services have increased 2.0%. Private capital equipment prices were unchanged in October, but are up 0.8% in the past year.
- Prices for intermediate processed goods rose 0.4% in October, but are down 3.7% versus a year ago. Prices for intermediate unprocessed goods increased 1.0% in October, but are down 12.3% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: Producer prices moved broadly higher in October, rising at the fastest pace in sixth months. Energy prices rose 2.8% in October, led higher by a 7.3% jump in gasoline. Food prices, meanwhile, rose 1.3% on the month. Strip out these typically volatile categories, and “core” prices still rose 0.3% in October. Increased margins to wholesalers led the rise in core prices in October, as most major categories moved higher. Despite the move higher in October, “core” prices fell below 2.0% on a year-ago comparison basis for the first time since mid-2017. This is largely due to the year-over-year measure leaving behind the 0.6% jump in prices (the largest monthly rise in series history) last October. Core prices slowed following that October ’18 surge, but year-over-year changes still reflected it until now. This volatility in the monthly and year-over-year statistics is now behind us and we expect a continued steady rise in prices in the months ahead will move the year-to-year comparison back towards 2%. Goods prices led the producer price index higher in October, with rising fuel and food costs more than offsetting a large decline in costs for iron and steel scrap. Services prices rose 0.3% in October, as costs for hospital inpatient care and truck transportation cost joined wholesaler margins in moving higher. Further down the pipeline, prices for intermediate demand processed goods rose 0.4%, while intermediate demand unprocessed goods saw prices increase 1.0%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels. When you step back and view today’s report in context, it shows prices continuing to move steadily higher. Not too fast, not too slow. Paired with the very healthy employment market, it signals an economy with no need for Fed intervention. In employment news this morning, initial jobless claims rose 14,000 last week to 225,000, while continuing claims declined 10,000 to 1.683 million. Plugging this data into our models suggests employment continues to grow at a healthy pace in November, and with the employees from the GM strike returning to work, November could see a nonfarm payroll gain north of 200,000.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-19	Sep-19	Aug-19	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.4%	-0.3%	0.1%	0.7%	0.7%	1.1%
Goods	0.7%	-0.4%	-0.5%	-1.0%	-1.0%	-0.6%
- Ex Food & Energy	0.0%	-0.1%	0.0%	-0.3%	-0.2%	0.6%
Services	0.3%	-0.2%	0.3%	2.0%	1.7%	2.0%
Private Capital Equipment	0.0%	-0.3%	-0.5%	-3.0%	-0.2%	0.8%
Intermediate Demand						
Processed Goods	0.4%	-0.4%	-0.7%	-2.4%	-3.6%	-3.7%
- Ex Food & Energy	0.1%	-0.3%	-0.4%	-2.6%	-2.2%	-2.4%
Unprocessed Goods	1.0%	-1.4%	-1.0%	-6.0%	-13.4%	-12.3%
- Ex Food & Energy	-1.3%	-1.6%	0.1%	-10.9%	-11.2%	-6.4%
Services	-0.2%	0.1%	0.5%	1.7%	0.7%	1.6%

Source: Bureau of Labor Statistics