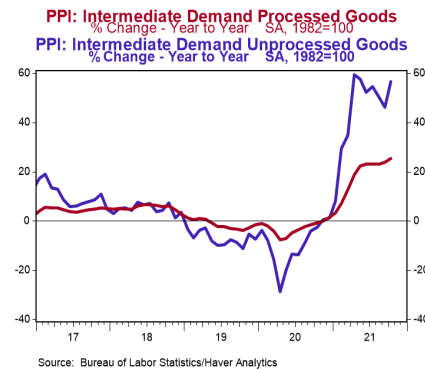
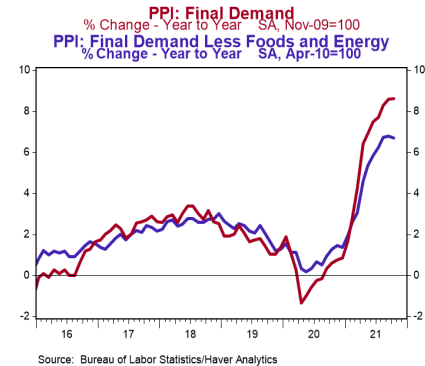


October PPI

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- The Producer Price Index (PPI) rose 0.6% in October, matching consensus expectations. Producer prices are up 8.6% versus a year ago.
- Energy prices rose 4.8% in October, while food prices declined 0.1%. Producer prices excluding food and energy increased 0.4% in October and are up 6.8% in the past year.
- In the past year, prices for goods are up 14.2%, while prices for services have risen 5.9%. Private capital equipment prices increased 1.1% in October and are up 7.5% in the past year.
- Prices for intermediate processed goods rose 2.1% in October and are up 25.4% versus a year ago. Prices for intermediate unprocessed goods rose 8.4% in October and are up 56.6% versus a year ago.



Implications: Producer prices continue to rise at the fastest pace in decades, with little sign inflation pressures are going to ease. The producer price index rose 0.6% in October and is up 8.6% in the past year. For years after the financial crisis, the question from many was whether the Fed could induce even 2.0% inflation; now there’s increasing skepticism (even at the Fed, if the wording changes in last week’s statement are any indicator) that inflation is as “transitory” as previously thought, and getting back down to 2% inflation doesn’t look likely any time soon. Supply-chain issues continue to exert significant upward pressure on prices. From the shortage in semiconductors to difficulties finding labor, supply simply hasn’t kept up with demand. And while the port congestion gets the news coverage, each step in the distribution process – from drivers to move loads out of the ports, trains available to move them across the country, and staff available to unload at warehouses – faces difficulties trying to meet demand. And while producers are hampered, demand has been amplified by an M2 money supply that is 38% above pre-COVID levels, leaving both consumer and corporate pockets flush with cash. While supply-chain issues will ultimately prove temporary, the huge increase in the money supply is what will drive inflation over the long term. In terms of the details for October, prices for goods led the overall index higher, rising 1.2%. The most notable increase came from rising costs for energy, up 4.8% on the month. Prices for services, meanwhile, rose 0.2% in October, with the bulk of that increase coming from margins to automobile and auto parts retailers, up 8.9% from September. Stripping out the typically volatile food and energy components shows “core” prices rose 0.4% in October and are up 6.8% in the past year. While inflation was a key factor pushing the Fed last week to announce the start of tapering asset purchases, what matters most for the economy – and markets – is when the Fed lifts the Federal Funds rate, and that is still a long way off.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-21	Sep-21	Aug-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	0.6%	0.5%	0.7%	7.8%	9.1%	8.6%
Goods	1.2%	1.3%	1.0%	14.3%	13.8%	14.2%
- Ex Food & Energy	0.5%	0.6%	0.6%	7.1%	9.6%	8.8%
Services	0.2%	0.2%	0.7%	4.2%	6.2%	5.9%
Private Capital Equipment	1.1%	0.6%	0.2%	8.3%	10.6%	7.5%
Intermediate Demand						
Processed Goods	2.1%	1.3%	1.0%	19.2%	23.2%	25.4%
- Ex Food & Energy	1.1%	1.1%	1.3%	14.9%	20.8%	22.6%
Unprocessed Goods	8.4%	2.4%	1.0%	58.3%	56.6%	56.6%
- Ex Food & Energy	1.1%	-3.5%	0.0%	-9.4%	15.2%	30.3%
Services	0.2%	0.5%	0.3%	3.7%	6.5%	7.4%

Source: Bureau of Labor Statistics