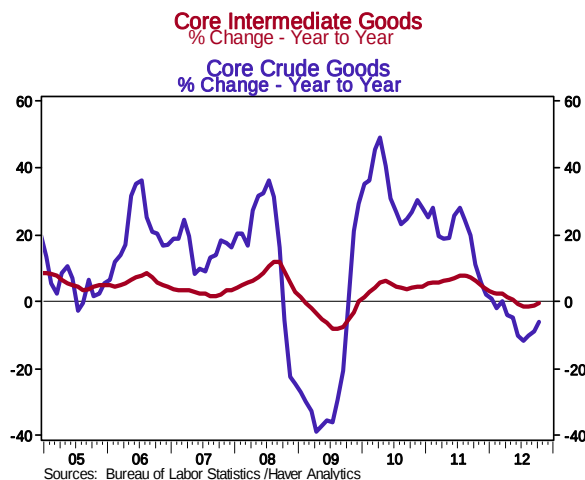
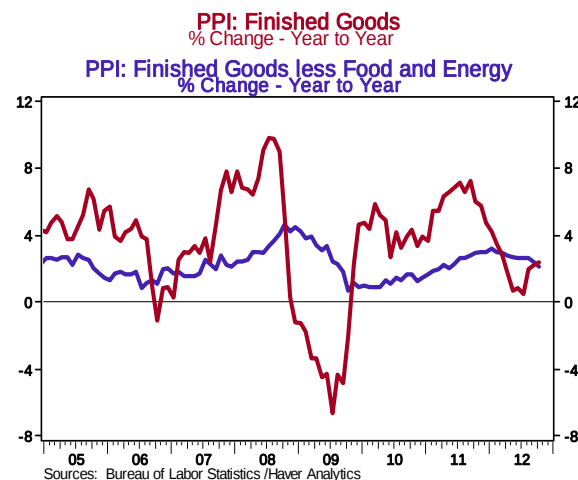


October PPI

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- The Producer Price Index (PPI) declined 0.2% in October, coming in well below the consensus expected gain of 0.2%. Producer prices are up 2.3% versus a year ago.
- About half of the decline in the overall PPI was due to energy, which fell 0.5%. Food prices increased 0.4%. The “core” PPI, which excludes food and energy, was also down 0.2%.
- Consumer goods prices were down 0.1% in October, and are up 2.7% versus last year. Capital equipment prices fell 0.3% in October but are up 1.4% in the past year.
- Core intermediate goods prices were flat in October but are down 0.5% versus a year ago. Core crude prices were down 1.4% in October, and are down 5.9% versus a year ago.

Implications: After two straight months of steep gain, producer prices took a breather in October, dropping 0.2% instead of the consensus expected gain of 0.2%. Lower energy prices played a role but “core” prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were also down 0.2%, the biggest monthly decline since October 2010. The drop in core prices was mainly due to vehicles, reflecting the change-over to next year’s models. Even with the 0.2% decline, “core” prices are still up 2.1% from a year ago, slightly above the Federal Reserve’s 2% target. Some analysts may suggest that with the PPI only up 2.3% from a year ago, the Federal Reserve has room for more quantitative easing. We think monetary policy is loose enough already; the problems that ail the economy are fiscal and regulatory, not monetary. Adding more excess reserves to the banking system is not going to boost economic growth. In other inflation news from late last week, import prices increased 0.5% in October, but are up only 0.4% in the past year. Excluding petroleum, import prices were up 0.3% in October but down 0.3% from a year ago. Export prices were unchanged in October but up 1.4% in the past year. Ex-agriculture, export prices are up 0.2% both in October and in the past year. Given the loose stance of monetary policy, higher inflation is eventually on the way.



Producer Price Index All Data Seasonally Adjusted	Oct-12	Sep-12	Aug-12	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Finished Goods	-0.2%	1.1%	1.7%	11.0%	4.1%	2.3%
Ex Food and Energy	-0.2%	0.0%	0.2%	0.0%	1.7%	2.1%
Food	0.4%	0.2%	0.9%	6.2%	4.4%	2.2%
Energy	-0.5%	4.7%	6.4%	51.1%	9.9%	3.1%
Consumer Goods	-0.1%	1.6%	2.3%	15.7%	5.3%	2.7%
Capital Equipment	-0.3%	-0.1%	0.2%	-0.7%	0.6%	1.4%
Intermediate Goods	-0.1%	1.5%	1.1%	10.3%	0.6%	0.8%
Ex Food & Energy	0.0%	0.6%	-0.2%	1.5%	-2.8%	-0.5%
Energy	-0.6%	4.3%	4.4%	37.4%	6.2%	2.3%
Crude Goods	0.9%	2.8%	5.8%	44.8%	8.7%	0.0%
Ex Food & Energy	-1.4%	1.6%	2.2%	9.9%	-7.8%	-5.9%
Energy	1.3%	4.4%	9.7%	81.3%	10.0%	-4.8%

Source: Bureau of Labor Statistics