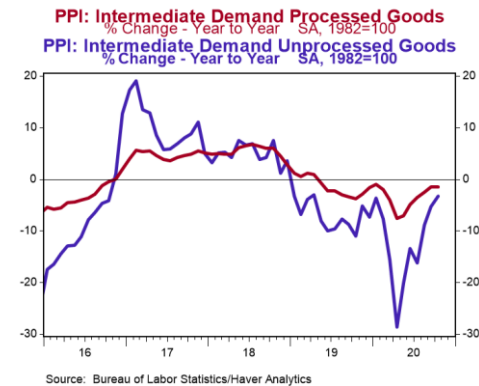
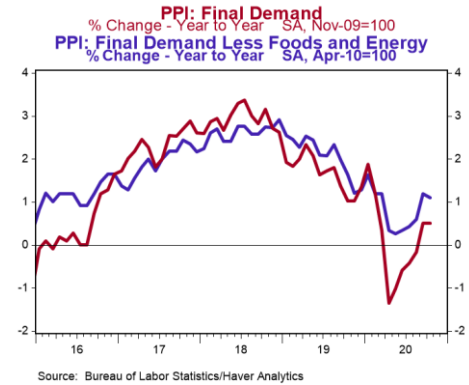


October PPI

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- The Producer Price Index (PPI) rose 0.3% in October versus a consensus expected 0.2%. Producer prices are up 0.5% versus a year ago.
- Food prices rose 2.4% in October, while energy prices increased 0.8%. Producer prices excluding food and energy rose 0.1% in October and are up 1.1% in the past year.
- In the past year, prices for goods are down 1.0%, while prices for services have risen 1.2%. Private capital equipment prices declined 0.1% in October, but are up 0.8% in the past year.
- Prices for intermediate processed goods rose 0.3% in October, but are down 1.5% versus a year ago. Prices for intermediate unprocessed goods jumped 2.6% in October but remain down 3.4% versus a year ago.



Implications: Producer prices continued to rise in October, and are up at the fastest six-month annualized pace in nearly a decade at 4.7%, a sharp rebound from the steep price declines earlier this year. Prices for both goods and services pushed the index higher, continuing the relatively broad-based movement in inflation over recent months. Digging into the details shows that a key contributor to the October rise came from final demand goods, up 0.5%. In particular, food prices had an outsized impact, as rising costs for vegetables, meat, and eggs pushed the food index up 2.4% on the month. Energy prices rose 0.8% in October, led higher by rising costs for gasoline, which were partially offset by declining electricity prices. Strip out the typically volatile food and energy categories, and “core” producer prices rose 0.1% in October. Within core prices, transportation and warehousing were key movers in October, with long-distance motor carrying costs increasing 1.9% as a continued shortage of delivery drivers put upward price pressure on rates. With the lumber shortage continuing, as well, the index for hardware, building materials, and supplies retailing also remains a standout, rising 7.3% in October and up at a staggering 174.5% annualized rate in the past three months. Core producer prices are up a modest 1.1% over the past twelve months, but expect that to move higher in the months ahead. Supply constraints, limitations on activity, and the general economic disruptions related to COVID-19 will continue to muddy the data for the foreseeable future, but what is clear is the massive increase in the M2 money supply, up 24.2% in the past year. Once the dust finally settles – and it eventually will – we expect inflation to trend back to 2% and then higher. The Federal Reserve is loose and, as it has made abundantly clear, plans to stay that way for the foreseeable future. Meanwhile, businesses operating at limited capacity will remain a headwind for economic activity. The result will eventually be too much money chasing too few goods (and services), meaning higher – but not hyper – inflation. Further down the pipeline, prices for intermediate demand processed goods rose 0.3% in October, while intermediate demand unprocessed goods rose 2.6%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels. The data are starting to shift higher, though, tracking the emergence of the economy from what was a severe – but short – recession. We still have a long way to go to get back to where we were at the start of 2020, but the initial steps of recovery are under way, and we expect growth will march onward through the close of this year and beyond.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-20	Sep-20	Aug-20	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.3%	0.4%	0.3%	4.5%	4.7%	0.5%
Goods	0.5%	0.4%	0.1%	4.3%	7.9%	-1.0%
- Ex Food & Energy	0.0%	0.4%	0.3%	2.7%	2.0%	1.2%
Services	0.2%	0.4%	0.5%	4.4%	3.0%	1.2%
Private Capital Equipment	-0.1%	0.0%	0.3%	1.0%	2.1%	0.8%
Intermediate Demand						
Processed Goods	0.3%	1.0%	0.6%	7.6%	9.6%	-1.5%
- Ex Food & Energy	0.2%	1.3%	0.5%	7.9%	4.7%	0.2%
Unprocessed Goods	2.6%	3.9%	7.0%	68.9%	63.4%	-3.4%
- Ex Food & Energy	0.6%	7.2%	1.7%	45.0%	24.5%	16.0%
Services	0.8%	1.0%	0.7%	10.7%	6.1%	1.6%

Source: Bureau of Labor Statistics