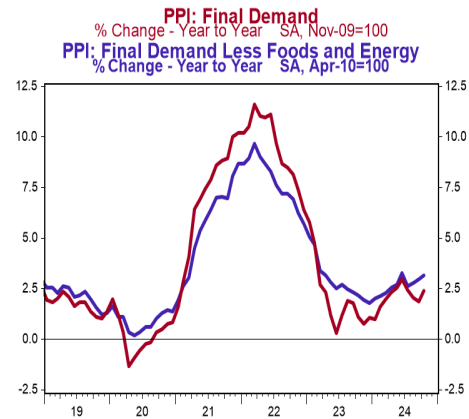


October PPI

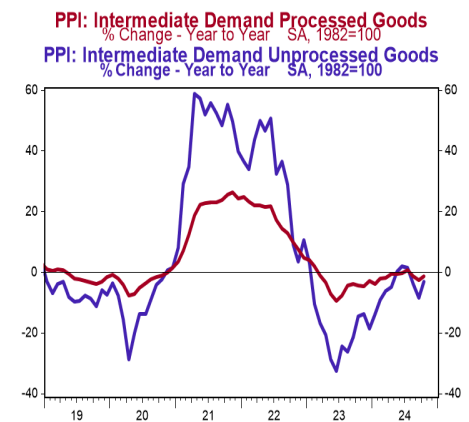
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- The Producer Price Index (PPI) rose 0.2% in October, matching consensus expectations. Producer prices are up 2.4% versus a year ago.
- Energy prices declined 0.3% in October, while food prices fell 0.2%. Producer prices excluding food and energy rose 0.3% in October and are up 3.1% versus a year ago.
- In the past year, prices for goods are up 0.2%, while prices for services have increased 3.5%. Private capital equipment prices rose 0.4% in October and are up 3.1% in the past year.
- Prices for intermediate processed goods rose 0.5% in October but are down 1.2% versus a year ago. Prices for intermediate unprocessed goods increased 4.1% in October but are down 2.9% versus a year ago.

Implications: While the Fed cut interest rates by a quarter percentage point last week and looks likely to cut again in December, it is not at all clear that inflation problems are behind us. Producer prices rose 0.2% in October, despite declines in food and energy prices, which fell 0.2% and 0.3%, respectively. These categories have played an outsized role in the slower inflation readings of recent months, but when you strip out these historically volatile components, “core” producer prices rose 0.3% in October and are up 3.1% in the past year, an acceleration from the 2.2% reading for the twelve months ending October 2023. Diving into the details of today’s report shows service prices led the core index higher, rising 0.3% in October and up 3.5% in the past year. The October increase in services was broad based, with all major categories showing higher prices. Prices for goods rose 0.1% in October and are up a modest 0.2% from a year ago. Within goods, rising costs for steel scrap, meats, and diesel fuel more than offset an 18.1% decline in liquified petroleum gas prices. Further back in the supply chain, prices in October rose 0.5% for intermediate demand processed goods and 4.1% for unprocessed goods, but prices in both categories are down in the past year. The direction of inflation moving forward is very likely to be dictated by 1) the services side of the economy, which suffered heavily during the COVID shutdowns but has since returned to the forefront and 2) changes in the money supply, which, after surging in 2020-21, peaked in early 2022. Although the M2 measure of money has been rising gradually since last October, it’s still down 2.3% from the peak in April 2022. Too little growth in the money supply means continued downward pressure on both inflation and economic growth. We will be watching the path of M2 growth closely as the Fed continues cutting rates. A sharp resurgence in M2 growth would bring with it the risk of accelerating inflation. Does the Fed have the patience to ease at a slow and steady pace, or will they overreact to any signs of economic trouble? Only time will tell, but the stakes are high, and the Fed’s record is less than pristine. On the labor front this morning, initial jobless claims fell 4,000 last week to 217,000. Meanwhile, continuing claims declined 11,000 to 1.873 million. These figures are consistent with continued job growth in November, but at a slower pace than earlier this year.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Oct-24	Sep-24	Aug-24	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.2%	0.1%	0.2%	2.0%	1.9%	2.4%
Goods	0.1%	-0.2%	-0.1%	-0.9%	-1.5%	0.2%
- Ex Food & Energy	0.3%	0.1%	0.2%	2.3%	2.2%	2.2%
Services	0.3%	0.2%	0.4%	3.4%	3.5%	3.5%
Private Capital Equipment	0.4%	0.1%	0.6%	4.3%	3.0%	3.1%
Intermediate Demand						
Processed Goods	0.5%	-0.8%	-0.2%	-1.8%	-2.6%	-1.2%
- Ex Food & Energy	0.4%	-0.1%	0.0%	1.5%	1.1%	-1.5%
Unprocessed Goods	4.1%	-1.8%	-3.4%	-4.6%	2.9%	-2.9%
- Ex Food & Energy	2.1%	1.8%	-1.2%	11.2%	9.3%	3.7%
Services	0.1%	0.1%	0.0%	0.6%	2.3%	3.5%

Source: Bureau of Labor Statistics