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November PPI

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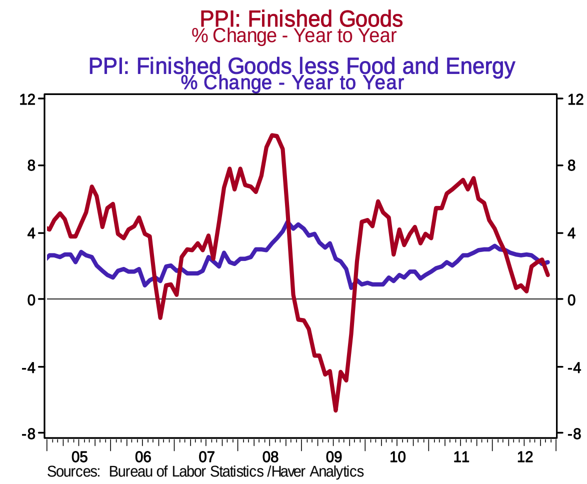
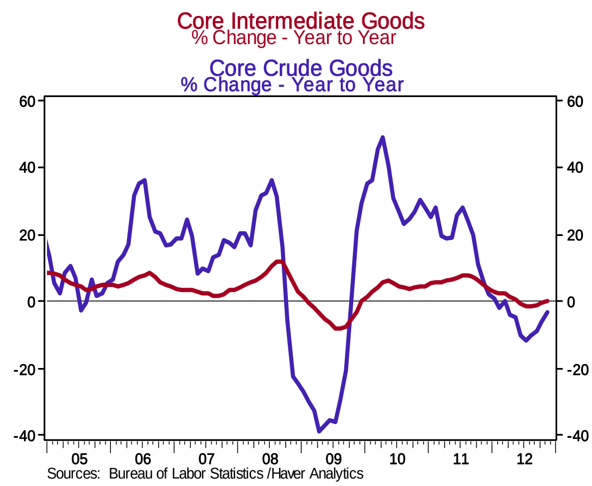
- The Producer Price Index (PPI) declined 0.8% in November, coming in below the consensus expected decline of 0.5%. Producer prices are up 1.5% versus a year ago.
- The decline in the overall PPI was due to energy, which fell 4.6%. Food prices increased 1.3%. The "core" PPI, which excludes food and energy, was up 0.1%.
- Consumer goods prices were down 1.1% in November, but are up 1.4% versus last year. Capital equipment prices rose 0.2% in November and are up 1.6% in the past year.
- Core intermediate goods prices were down 0.1% in November and are down 0.1% versus a year ago. Core crude prices were up 0.9% in November, but are down 3.1% versus a year ago.

Implications: Producer prices fell for the second straight month in November, dropping 0.8%. However, the decline was all due to energy prices which fell 4.6%, the largest drop since March 2009. Overall producer prices are now only up 1.5% from a year ago. "Core" prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.1% and are now up 2.2% from a year ago, slightly above the Federal Reserve's 2% target. In other recent inflation news, import prices fell 0.9% in November, and are down 1.6% in the past year. Excluding petroleum, import prices were down 0.1% in November and unchanged from a year ago. Export prices declined 0.7% in November but are up 0.7% in the past year. Ex-agriculture, export prices fell 0.7% in November and are down 0.4% in the past year. Some analysts may suggest these trade price figures, along with an overall PPI only up 1.5% from a year ago, mean the Federal Reserve has room for the new round of bond buying it announced yesterday. We think this is a mistake. With banks already holding $1.4 trillion in excess reserves, monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding even more excess reserves to the banking system is not going to boost economic growth. Given the loose stance of monetary policy, higher inflation is eventually on the way.





Producer Price Index *All Data Seasonally Adjusted*	Nov-12	Oct-12	Sep-12	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	-0.8%	-0.2%	1.1%	0.8%	4.6%	1.5%
Ex Food and Energy	0.1%	-0.2%	0.0%	-0.4%	1.7%	2.2%
Food	1.3%	0.4%	0.2%	8.2%	8.0%	2.6%
Energy	-4.6%	-0.5%	4.7%	-2.3%	9.6%	-1.3%
Consumer Goods	-1.1%	-0.1%	1.6%	1.3%	6.0%	1.4%
Capital Equipment	0.2%	-0.3%	-0.1%	-0.7%	0.9%	1.6%
Intermediate Goods	-1.2%	-0.1%	1.5%	0.8%	0.2%	-0.2%
Ex Food & Energy	-0.1%	0.0%	0.6%	2.1%	-2.4%	-0.1%
Energy	-4.9%	-0.6%	4.3%	-5.4%	3.4%	-3.2%
Crude Goods	0.1%	0.9%	2.8%	15.7%	17.0%	-1.8%
Ex Food & Energy	0.9%	-1.4%	1.6%	4.6%	-2.2%	-3.1%
Energy	-0.7%	1.3%	4.4%	21.9%	21.7%	-9.4%

Source: Bureau of Labor Statistics