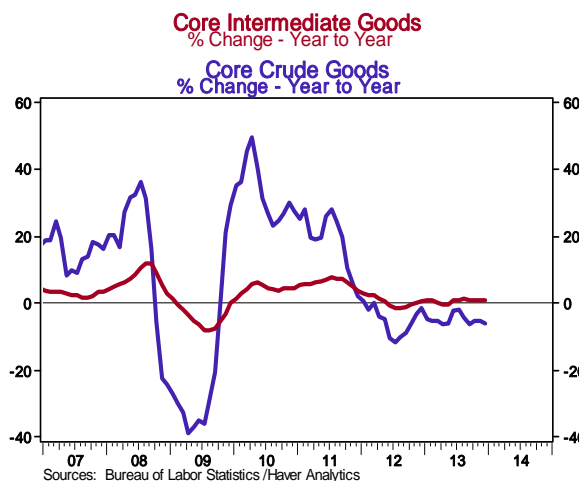
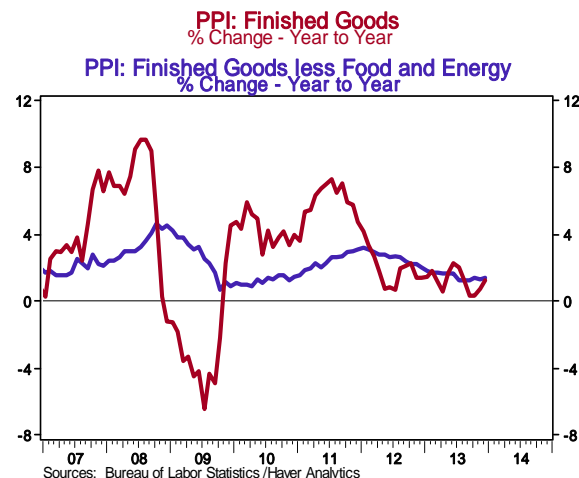


December PPI

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- The Producer Price Index (PPI) rose 0.4% in December, matching consensus expectations. Producer prices are up 1.2% versus a year ago.
- The rise in the overall PPI was due primarily to energy, which rose 1.6%. Food prices declined 0.6% on the month. The “core” PPI, which excludes food and energy, rose 0.3% in December.
- Consumer goods prices were up 0.5% in December while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 1.3% while capital equipment prices are up 1.0%.
- Core intermediate goods prices rose 0.2% in December and are up 0.8% versus a year ago. Core crude prices rose 0.6% in December, but are down 5.9% versus a year ago.

Implications: After three months of declines, the Producer Price Index (PPI) moved noticeably higher to end 2013. The rise in December was led by energy, with gasoline prices accounting for more than the half gain for the month. “Core” prices, which exclude food and energy and which the Federal Reserve follows more closely than the overall number, were up 0.3% in December, the largest single-month jump since July of 2012. Despite the outsized increase in December, producer prices are up 1.2% in the past year. “Core” producer prices are up 1.4% from a year ago, faster than the overall gain but not fast by the standards of the past several decades. As a result, some analysts will say the Federal Reserve has room to continue quantitative easing at the current pace of \$75 billion per month or only “taper” by \$10 billion per meeting. We think this would be a mistake. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth. Today’s producer price report does not signal the onset of hyperinflation, but it does support the case for inflation moving higher more rapidly than the Fed now expects. In other news this morning, the Empire State index, a measure of factory sentiment in New York, rose to +12.5 in December from +2.2 in November, the highest reading for the survey since May of 2012. The report supports our outlook for faster economic growth in 2014.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-13	Nov-13	Oct-13	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.4%	-0.1%	-0.2%	0.8%	1.3%	1.2%
<i>Ex Food and Energy</i>	0.3%	0.1%	0.2%	2.0%	1.2%	1.4%
Food	-0.6%	0.0%	0.8%	0.8%	0.4%	0.6%
Energy	1.6%	-0.4%	-1.5%	-1.4%	2.6%	1.3%
Consumer Goods	0.5%	-0.1%	-0.2%	0.8%	1.4%	1.3%
Capital Equipment	0.1%	0.1%	0.1%	1.2%	1.1%	1.0%
Intermediate Goods	0.6%	-0.5%	-0.4%	-1.4%	0.1%	0.0%
<i>Ex Food & Energy</i>	0.2%	-0.1%	-0.1%	0.0%	0.1%	0.8%
Energy	1.9%	-1.5%	-1.2%	-3.3%	2.0%	-1.3%
Crude Goods	2.4%	-2.6%	-0.9%	-4.3%	-3.5%	-2.2%
<i>Ex Food & Energy</i>	0.6%	1.4%	-0.5%	6.2%	0.3%	-5.9%
Energy	6.2%	-6.6%	-2.9%	-13.7%	0.1%	4.4%

Source: Bureau of Labor Statistics