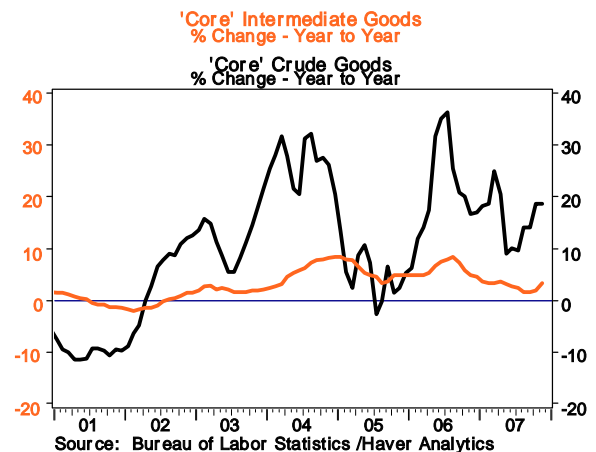
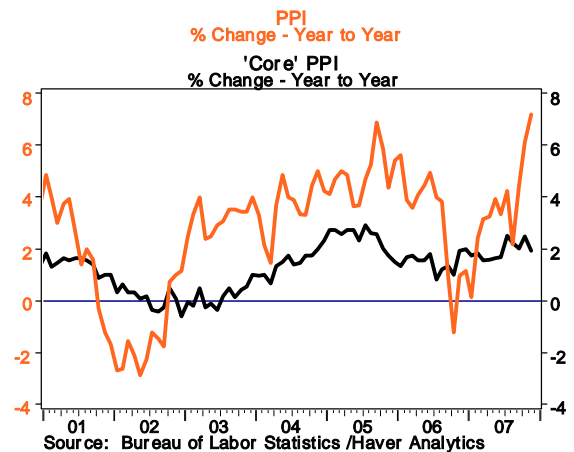


## NOVEMBER PPI

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- The Producer Price Index (PPI) increased 3.2% in November versus a consensus expected rise of 1.5%. The PPI is up 7.7% in the past twelve months (seasonally adjusted).
- Most of the PPI's increase in November was due to energy prices, which rose 14.1%. But the core PPI, which excludes food and energy prices, was still up 0.4% versus a consensus expected gain of 0.2%. The core PPI is up 1.9% in the past year (seasonally adjusted).
- Consumer goods prices rose 4.0% in November and are up 9.1% in the past year (seasonally adjusted). Capital equipment prices increased 0.3% and are up 1.3% in the past year.
- Intermediate goods prices increased 3.7% in November and are up 8.6% versus last year. Crude prices increased 8.7% and are up 22.2% versus a year ago.



**Implications:** Today's PPI report drives a stake through the heart of the argument that the U.S. does not have an inflation problem. Producer prices increased 3.2% in November, the largest single-month hike since 1973, beating every month during the high inflation of the late 1970s as well as the month affected by Hurricanes Katrina and Rita. Producer prices are up 7.7% versus a year ago, the largest one-year increase since 1981. While some analysts continue to focus on core prices, which exclude food and energy, these measures are becoming increasingly irrelevant. The only legitimate reason to use core inflation is because it has sometimes been useful in predicting future overall inflation. However, for the past several years that relationship has broken down. The concept of core inflation was invented in the early 1970s to give the Federal Reserve an excuse to be loose when it should have been tight. This is one part of our history that we should avoid repeating.

<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Nov-07</b>	<b>Oct-07</b>	<b>Sep-07</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <b>% Change</b>
<b>Finished Goods</b>	<b>3.2%</b>	0.1%	1.1%	18.9%	7.2%	7.7%
<b>Ex Food and Energy</b>	<b>0.4%</b>	0.0%	0.1%	1.7%	2.0%	1.9%
<b>Food</b>	<b>0.0%</b>	1.0%	1.5%	10.0%	3.3%	7.2%
<b>Energy</b>	<b>14.1%</b>	-0.8%	4.1%	92.7%	25.7%	25.7%
<b>Consumer Goods</b>	<b>4.0%</b>	0.1%	1.5%	24.6%	8.8%	9.1%
<b>Capital Equipment</b>	<b>0.3%</b>	-0.1%	-0.1%	0.8%	1.3%	1.3%
<b>Intermediate Goods</b>	<b>3.7%</b>	0.1%	0.4%	18.0%	8.2%	8.6%
<b>Ex Food &amp; Energy</b>	<b>1.0%</b>	0.1%	0.1%	5.1%	2.7%	3.3%
<b>Energy</b>	<b>13.3%</b>	-0.1%	1.1%	71.4%	26.5%	27.7%
<b>Crude Goods</b>	<b>8.7%</b>	2.4%	0.1%	54.2%	21.1%	22.2%
<b>Ex Food &amp; Energy</b>	<b>-0.5%</b>	1.4%	1.6%	10.4%	8.1%	18.9%
<b>Energy</b>	<b>17.0%</b>	5.9%	-2.0%	117.3%	37.3%	23.6%

Source: Bureau of Labor Statistics