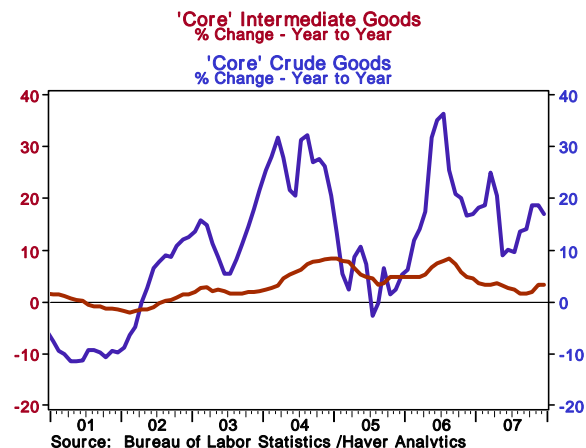
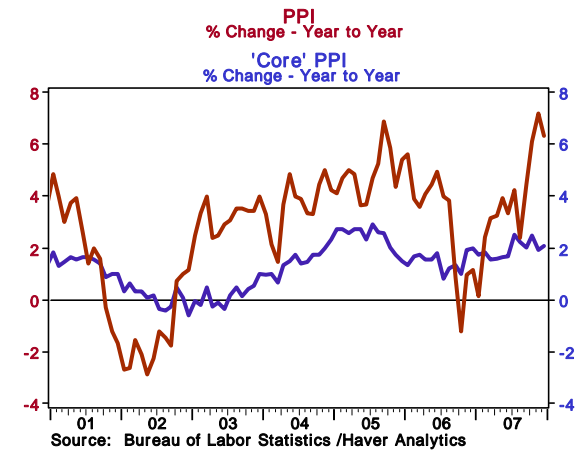


DECEMBER PPI

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- The Producer Price Index (PPI) declined 0.1% in December versus a consensus expected rise of 0.2%. The PPI is up 6.8% in the past twelve months (seasonally adjusted).
- All the PPI's decline in December was due to energy prices, which fell 1.9% after rising 14.1% in November. The core PPI, which excludes food and energy prices, was up 0.2%, as the consensus expected. The core PPI is up 2.1% in the past year (seasonally adjusted).
- Consumer goods prices fell 0.1% in December after the November spike of 4.0%. Consumer goods prices are up 7.9% versus last year. Capital equipment prices increased 0.1% in December and are up 1.3% in the past year.
- Intermediate goods prices declined 0.2% in December and are up 7.5% versus last year. Crude prices increased 1.0% and are up 20.3% versus a year ago.

Implications: The decline in producer prices in December was tiny compared to the massive 3.2% spike in November, meaning the US still has an inflation problem. Producer prices are up 6.8% versus a year ago. With the exception of last month's year ago comparison, that's the largest one-year increase since 1981. Even core producer prices show a rising inflation trend if we take a long-term view. Core prices are up at a 1.8% rate in the past five years, a larger increase for any five-year period since 1991-96. By contrast, in the five years ended December 2003, core producer prices were up at only a 0.7% annual rate. Despite the inflation problem, the Federal Reserve is poised to cut rates again at the end of January. Most likely, the Fed will cut the federal funds rate to 3.75% from 4.25% at present. However, a 75 basis point cut is also a strong possibility. In the end, these cuts will make the inflation problem even more intense in 2009 and beyond.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-07	Nov-07	Oct-07	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.1%	3.2%	0.1%	13.3%	7.0%	6.8%
<i>Ex Food and Energy</i>	0.2%	0.4%	0.0%	2.2%	2.0%	2.1%
Food	1.3%	0.0%	1.0%	9.4%	6.7%	7.4%
Energy	-1.9%	14.1%	-0.8%	51.9%	21.4%	20.4%
Consumer Goods	-0.1%	4.0%	0.1%	16.8%	8.7%	7.9%
Capital Equipment	0.1%	0.3%	-0.1%	1.3%	1.2%	1.3%
Intermediate Goods	-0.2%	3.7%	0.1%	15.0%	7.0%	7.5%
<i>Ex Food & Energy</i>	0.0%	1.0%	0.1%	4.6%	2.3%	3.3%
Energy	-1.4%	13.3%	-0.1%	55.3%	22.4%	21.3%
Crude Goods	1.0%	8.7%	2.4%	59.6%	20.9%	20.3%
<i>Ex Food & Energy</i>	0.0%	-0.5%	1.4%	3.6%	7.9%	16.9%
Energy	-0.7%	17.0%	5.9%	129.5%	29.6%	17.2%

Source: Bureau of Labor Statistics