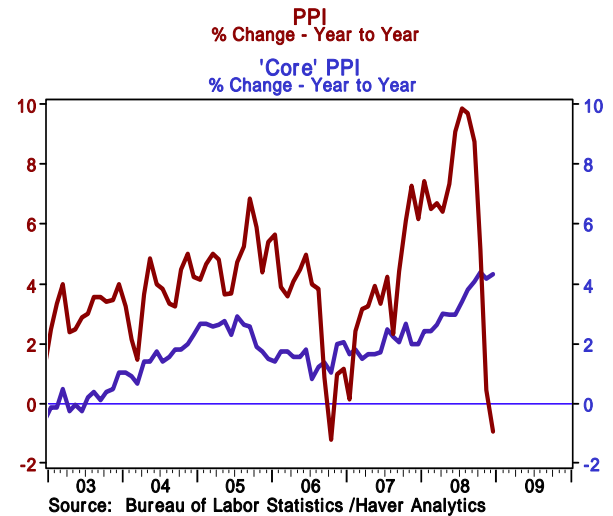


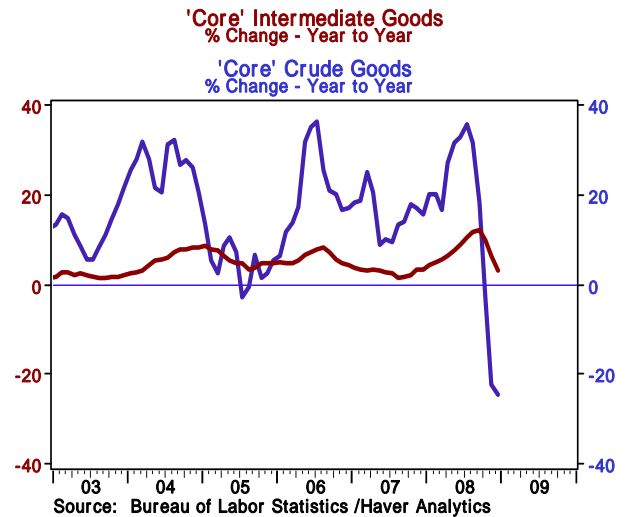
DECEMBER PPI

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- The Producer Price Index (PPI) dropped 1.9% in December, almost exactly matching consensus expectations. The PPI is down 0.9% versus a year ago.
- All the December drop in the PPI was attributable to energy, which fell 9.3%. Food prices also declined. The “core” PPI, which excludes food and energy, increased 0.2% in December and is up 4.3% versus last year, nearly the most in twenty years.
- Consumer goods prices declined 2.6% in December and are down 2.5% versus last year. Capital equipment prices rose 0.2% in December and are up 4.0% versus a year ago.
- Intermediate goods prices fell 4.2% in December, are down at a 39.7% annual rate in the past three months and are down 2% in the past year. Crude prices fell 5.3% in December, are down at a 79.4% annual rate in the past three months, and are down 24.8% versus last year.



Implications: Falling energy prices continued to push overall producer prices lower in December. The decline in producer prices in the past three months is easily the fastest in the post-World War II era, with finished goods prices down at a 24.3% annual rate, intermediate prices down at a 39.7% rate, and crude prices down at a 79.4% rate. Broad declines in commodities also brought down prices for “core” intermediate and “core” crude goods. However, prices for “core” finished goods, which are less sensitive to commodities, remain in a rising trend, up at a 2.9% annual pace in the past three months. This suggests the underlying inflation problem that preceded the collapse in monetary velocity has not gone away and a revival of inflation will follow the eventual resurgence in economic growth. In other news this morning, initial claims for unemployment insurance increased 54,000 last week to 524,000. This was higher than the consensus expected but still below the average level in November and December. Also in other news, both the Philly Fed Index and the Empire State Index, measures of manufacturing in the Philadelphia and New York regions, increased in January, to -24.3 and -22.2, respectively. Although still negative, these are the highest since September, signaling the recession is losing intensity.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-08	Nov-08	Oct-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-1.9%	-2.2%	-2.8%	-24.3%	-13.2%	-0.9%
Ex Food and Energy	0.2%	0.1%	0.4%	2.9%	4.4%	4.3%
Food	-1.5%	0.0%	-0.2%	-6.4%	-1.7%	3.8%
Energy	-9.3%	-11.2%	-12.8%	-75.7%	-55.1%	-21.2%
Consumer Goods	-2.6%	-2.9%	-3.7%	-31.0%	-17.8%	-2.5%
Capital Equipment	0.2%	0.1%	0.5%	2.9%	4.2%	4.0%
Intermediate Goods	-4.2%	-4.3%	-3.9%	-39.7%	-21.9%	-2.0%
Ex Food & Energy	-3.0%	-2.3%	-1.7%	-24.6%	-7.8%	3.2%
Energy	-9.5%	-12.3%	-10.6%	-74.7%	-57.3%	-20.4%
Crude Goods	-5.3%	-12.5%	-18.6%	-79.4%	-66.7%	-24.8%
Ex Food & Energy	-2.2%	-20.4%	-17.0%	-82.5%	-64.5%	-24.5%
Energy	-6.0%	-18.7%	-24.9%	-89.2%	-80.0%	-33.5%

Source: Bureau of Labor Statistics