First Trust Data Watch

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NOVEMBER PPI

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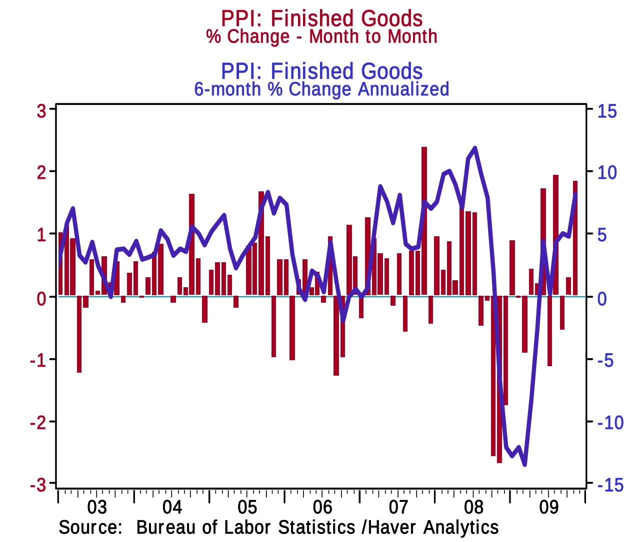
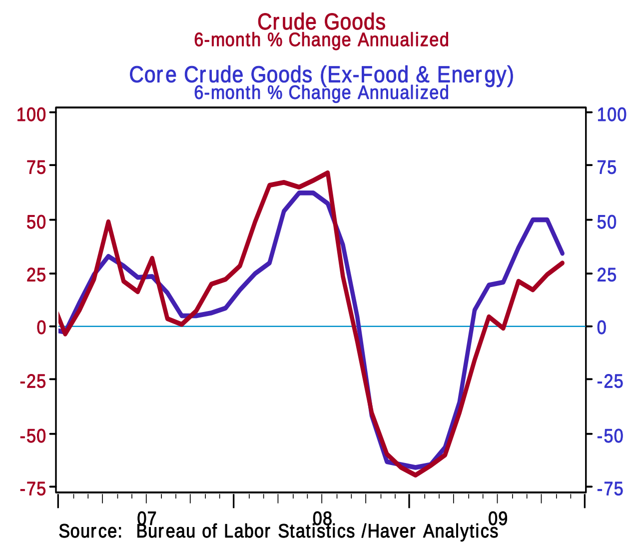
- The Producer Price Index (PPI) spiked up 1.8% in November, well above the consensus expected increase of 0.8%. The PPI is up 2.4% versus a year ago, and is up at an 8.3% annual rate in the past six months.
- The November increase in the PPI was mostly due to energy, which increased 6.9%. Food prices increased 0.5% as did the "core" PPI, which excludes food and energy.
- Consumer goods prices increased 2.3% in November and are up at an 11.2% annual rate in the past six months. Capital equipment prices increased 0.4% in November and are up at a 0.3% annual rate in the past six months.
- Intermediate goods prices increased 1.4% in November and are up at a 9.3% annual rate in the past six months. Crude prices increased 5.7% in November and are up at a 29.6% annual rate in the past six months.

Implications: The Federal Reserve is twiddling its thumbs waiting for consistent signs of falling unemployment before it starts raising interest rates. The Fed's theory is that inflation won't show up until the labor market gets a lot stronger than it is today. But inflation isn't just arriving early, it's bashing down the door. Producer prices increased 1.8% in October, blowing out the consensus expected rise of 0.8%. Forget about year-ago comparisons that include the rapid deflation of late last year, during the financial panic. So far *this* year, producer prices are up at a 5% annual rate. In the past six months they're up at an 8.3% rate. And the inflation is not just in the headline number: the "core" PPI rose 0.5% in November, the largest monthly increase since October 2008 and well above what should be the Fed's comfort level. In addition, inflation further up the production pipeline is getting worse. In the past six months, intermediate goods prices are up at a 9.3% annual rate and crude prices are up at a 29.6% pace. With the economy recovering faster than the Federal Reserve anticipated, the easy money policy it continues to hold onto is a dangerous problem. With each passing month the Fed is getting further and further behind the curve.





Producer Price Index *All Data Seasonally Adjusted*	Nov-09	Oct-09	Sep-09	3-mo % Ch. *annualized*	6-mo % Ch. *annualized*	Yr to Yr *% Change*
Finished Goods	**1.8%**	0.3%	-0.6%	6.3%	8.3%	2.4%
Ex Food and Energy	**0.5%**	-0.6%	-0.1%	-0.7%	0.7%	1.2%
Food	**0.5%**	1.6%	-0.1%	8.3%	3.9%	-1.6%
Energy	**6.9%**	1.6%	-2.4%	26.1%	39.2%	10.6%
Consumer Goods	**2.3%**	0.6%	-0.7%	9.1%	11.2%	3.2%
Capital Equipment	**0.4%**	-0.7%	-0.1%	-1.5%	0.3%	0.4%
Intermediate Goods	**1.4%**	0.3%	0.2%	7.8%	9.3%	-1.5%
Ex Food & Energy	**0.3%**	-0.2%	0.9%	4.2%	4.0%	-3.0%
Energy	**5.4%**	2.3%	-2.1%	24.4%	36.3%	5.7%
Crude Goods	**5.7%**	5.4%	-2.1%	41.6%	29.6%	4.8%
Ex Food & Energy	**-0.8%**	0.5%	3.6%	13.9%	34.3%	20.4%
Energy	**12.2%**	8.3%	-5.4%	74.7%	67.7%	8.5%

Source: Bureau of Labor Statistics