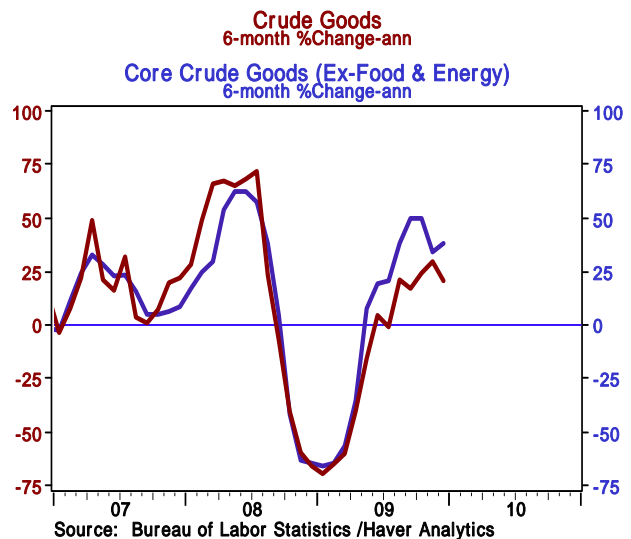
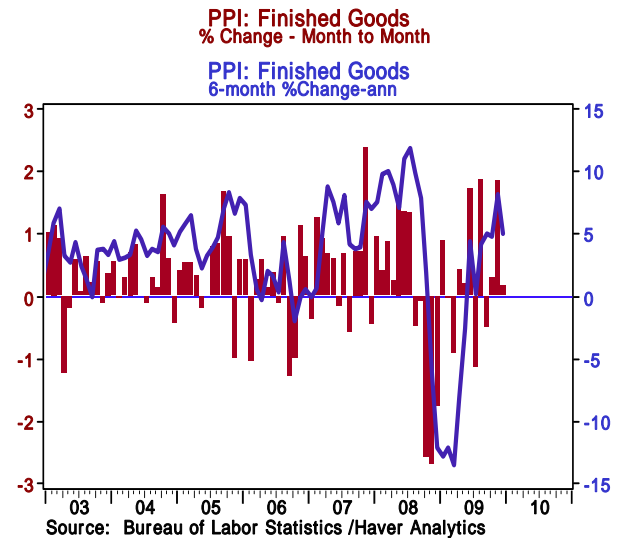


DECEMBER PPI

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- The Producer Price Index (PPI) increased 0.2% in December, above the consensus expected 0.0%. The PPI is up 4.4% versus a year ago, and is up at a 9.5% annual rate in the past three months.
- The December increase in the PPI was mostly due to foods, which increased 1.4%. Energy prices fell 0.4%. The “core” PPI, which excludes food and energy, was unchanged.
- Consumer goods prices increased 0.3% in December and are up at a 13.5% annual rate in the past three months. Capital equipment prices declined 0.1% in December and are down at a 1.5% annual rate in the past three months.
- Intermediate goods prices increased 0.5% in December and are up at a 9.0% annual rate in the past three months. Crude prices increased 1.0% in December and are up at a 60.9% annual rate in the past three months.

Implications: Inflation continues to be a growing concern. Producer prices increased 0.2% in December and the underlying trends are getting worse. Prices are up 4.4% versus last year, but up at a 5% annual rate in the past six months and a 9.5% rate in the past three months. Meanwhile, inflation further up the production pipeline is getting worse. In the past six months, intermediate goods prices are up at a 8.0% annual rate and crude prices are up at a 20.8% pace. Some analysts may focus on the “core” PPI, but this is misleading. When food and energy prices are in a rising trend, that leaves less purchasing power for other items, so excluding food and energy makes the “core” appear artificially benign. The Federal Reserve needs to start acting instead of 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. With the economy recovering faster than the Federal Reserve anticipated, easy monetary policy becomes more and more dangerous.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-09	Nov-09	Oct-09	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	0.2%	1.8%	0.3%	9.5%	5.0%	4.4%
<i>Ex Food and Energy</i>	0.0%	0.5%	-0.6%	-0.5%	-0.1%	0.9%
Food	1.4%	0.5%	1.6%	15.0%	4.5%	1.1%
Energy	-0.4%	6.9%	1.6%	36.6%	21.5%	21.2%
Consumer Goods	0.3%	2.3%	0.6%	13.5%	7.1%	6.0%
Capital Equipment	-0.1%	0.4%	-0.7%	-1.5%	-0.8%	0.0%
Intermediate Goods	0.5%	1.4%	0.3%	9.0%	8.0%	3.1%
<i>Ex Food & Energy</i>	0.5%	0.3%	-0.2%	2.3%	4.6%	-0.2%
Energy	0.2%	5.4%	2.3%	36.1%	24.9%	18.6%
Crude Goods	1.0%	5.7%	5.4%	60.9%	20.8%	12.1%
<i>Ex Food & Energy</i>	5.0%	-0.8%	0.5%	20.5%	38.3%	28.4%
Energy	-2.8%	12.2%	8.3%	94.2%	29.7%	13.3%

Source: Bureau of Labor Statistics