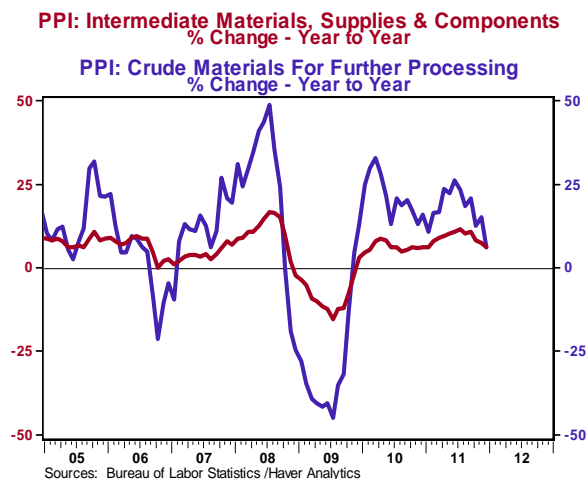
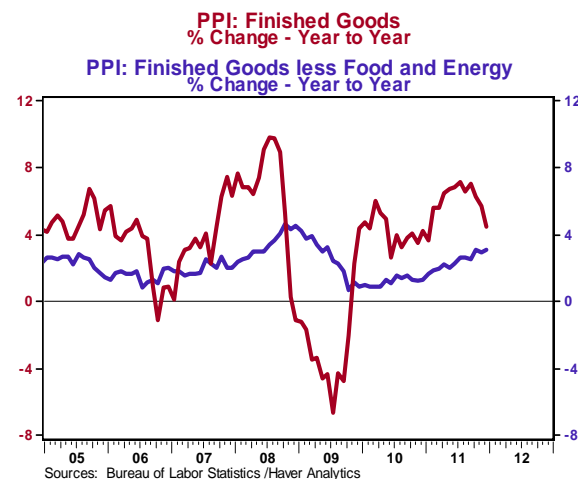


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December PPI

- The Producer Price Index (PPI) declined 0.1% in December, coming in below the consensus expected gain of 0.1%. Producer prices are up 4.5% versus a year ago.
- The decline in the PPI in December was due to food and energy, each dropping 0.8%. The “core” PPI, which excludes food and energy, increased 0.3%.
- Consumer goods prices dipped 0.2% in December but are up 5.4% versus last year. Capital equipment prices rose 0.2% in December and are up 2.3% in the past year.
- Core intermediate goods prices fell 0.5% in December but are up 4.2% versus a year ago. Core crude prices were unchanged in December but are up 3.3% in the past twelve months.

Implications: Due to falling commodities, producer prices took a breather in December, dipping 0.1% overall. However, the Federal Reserve can hardly use this data to justify another round of quantitative easing. “Core” prices, which exclude food and energy and which the Fed says it follows more closely than the overall figures, increased 0.3% and are now up 3.1% versus a year ago. With the exception of a temporary surge in 2008-09, this is the largest 12-month increase for core producer prices since the early 1990s. The increase in core prices in December was largely due to light trucks and construction machinery, which suggests some firms are preparing for an increase in activity. There has been a recent lull in producer price inflation. Prices for overall finished goods increased 4.5% in the past twelve months, but are down at a 0.6% annual rate in the past three months. There has been a similar slowdown in producer price inflation at the intermediate and crude levels of production, for both overall prices and for prices excluding food and energy. Although monetary policy is loose, the reaction of inflation to that policy is variable, not a straight line. We do not expect the lull in producer price inflation to be long-lived. In other recent news, chain-store sales continue to grow, up 3% versus a year ago according to the International Council of Shopping Centers and up 2.8% according to Rebook Research. And remember, these data are only for stores open for more than a year.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-11	Nov-11	Oct-11	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.1%	0.3%	-0.3%	-0.6%	2.0%	4.5%
Ex Food and Energy	0.3%	0.1%	0.0%	1.8%	2.4%	3.1%
Food	-0.8%	1.0%	0.1%	1.2%	5.4%	6.1%
Energy	-0.8%	0.1%	-1.4%	-7.9%	-2.1%	6.5%
Consumer Goods	-0.2%	0.3%	-0.4%	-1.2%	2.1%	5.4%
Capital Equipment	0.2%	0.1%	-0.1%	0.7%	1.4%	2.3%
Intermediate Goods	-0.5%	0.2%	-1.1%	-5.4%	-2.0%	5.8%
Ex Food & Energy	-0.5%	-0.4%	-0.6%	-5.6%	-2.3%	4.2%
Energy	-0.3%	1.9%	-2.6%	-4.1%	-2.5%	10.1%
Crude Goods	-1.1%	3.8%	-2.5%	0.5%	3.9%	11.1%
Ex Food & Energy	0.0%	-2.5%	-4.3%	-24.1%	-7.6%	3.3%
Energy	-0.1%	10.5%	-2.2%	35.9%	16.0%	3.8%

Source: Bureau of Labor Statistics