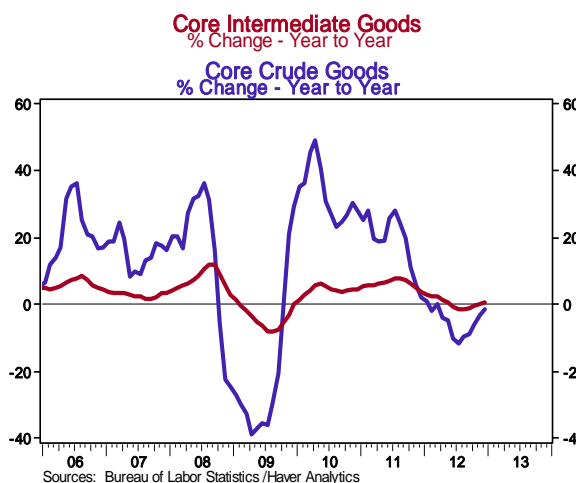
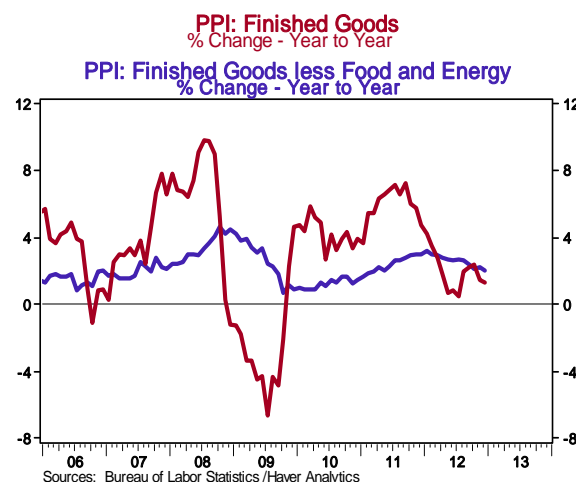


December PPI

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- The Producer Price Index (PPI) declined 0.2% in December, coming in slightly below the consensus expected decline of 0.1%. Producer prices are up 1.3% versus a year ago.
- The decline in the overall PPI was due to food, which fell 0.9%, and energy prices, which slipped 0.3%. The “core” PPI, which excludes food and energy, was up 0.1%.
- Consumer goods prices were down 0.3% in December, while capital equipment prices declined 0.1%. In the past year, both sets of prices are up 1.3%.
- Core intermediate goods prices were up 0.2% in December and are up 0.7% versus a year ago. Core crude prices were up 1.1% in December, but are down 1.4% versus a year ago.

Implications: Producer prices fell for the third straight month in December, dropping 0.2%. However, the decline was all due to food and energy. “Core” prices, which exclude food and energy and which the Federal Reserve claims are more important than the overall number, were up 0.1% in December. In the past year, overall producer prices are up 1.3% while core prices are up 2%. Some analysts may suggest that with the overall PPI up only 1.3% in 2012 that the Federal Reserve has room for the new round of bond buying it announced last month. We think this is a mistake. With banks already holding \$1.4 trillion in excess reserves, monetary policy is loose enough already. The problems that ail the economy are fiscal and regulatory, not monetary. Adding even more excess reserves to the banking system is not going to boost economic growth. Given the loose stance of monetary policy, higher inflation is eventually on the way. In other news today, the Empire State index, a measure of manufacturing activity in New York, fell to -7.8 January from -7.3 in December. This is the sixth straight month of a negative number, signaling contraction in manufacturing in this region. However, these kinds of surveys are also influenced by corporate sentiment rather than actual activity, and, at least for now, the Empire State index appears out of step with other surveys, both regional and national, signaling expansion.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-12	Nov-12	Oct-12	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.2%	-0.8%	-0.2%	-4.4%	3.9%	1.3%
<i>Ex Food and Energy</i>	0.1%	0.1%	-0.2%	-0.2%	1.3%	2.0%
Food	-0.9%	1.3%	0.4%	3.2%	4.7%	2.3%
Energy	-0.3%	-4.6%	-0.5%	-19.6%	10.4%	-1.3%
Consumer Goods	-0.3%	-1.1%	-0.1%	-5.9%	5.2%	1.3%
Capital Equipment	-0.1%	0.2%	-0.3%	-0.7%	0.4%	1.3%
Intermediate Goods	0.3%	-1.2%	-0.1%	-3.9%	2.3%	0.3%
<i>Ex Food & Energy</i>	0.2%	-0.1%	0.0%	0.6%	0.2%	0.7%
Energy	0.9%	-4.9%	-0.6%	-17.2%	5.8%	-3.1%
Crude Goods	2.5%	0.1%	0.9%	14.7%	31.8%	1.4%
<i>Ex Food & Energy</i>	1.1%	0.9%	-1.4%	2.9%	8.9%	-1.4%
Energy	7.2%	-0.7%	1.3%	35.4%	54.1%	-4.1%

Source: Bureau of Labor Statistics