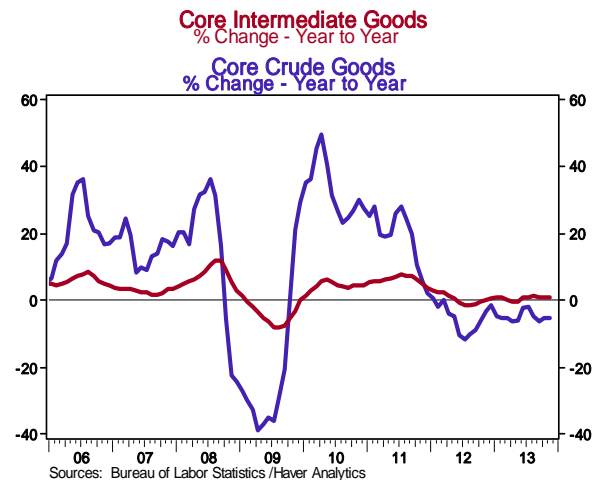
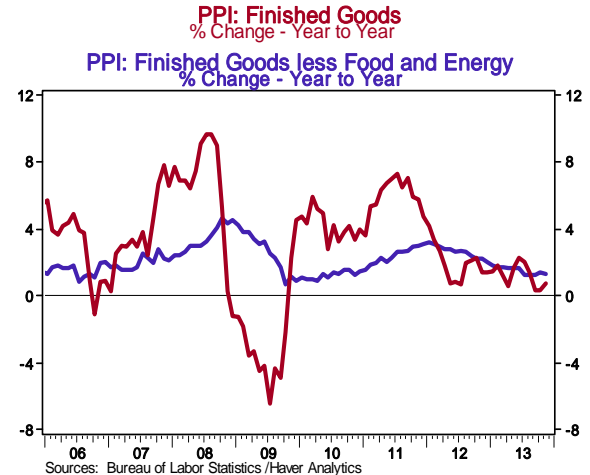


November PPI

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- The Producer Price Index (PPI) declined 0.1% in November versus consensus expectations that it would remain unchanged. Producer prices are up 0.7% versus a year ago.
- The decline in the overall PPI was due primarily to energy, which dropped 0.4%. Food prices were unchanged on the month. The “core” PPI, which excludes food and energy, rose 0.1% in November.
- Consumer goods prices declined 0.1% in November while capital equipment prices rose 0.1%. In the past year, consumer goods prices are up 0.6% while capital equipment prices are up 1.0%.
- Core intermediate goods prices declined 0.1% in November but are up 0.8% versus a year ago. Core crude prices rose 1.4% in November, but are down 5.3% versus a year ago.



Implications: Producer prices fell for a third straight month in November, dropping 0.1%. However, the decline in November was almost all due to falling energy costs. “Core” prices, which exclude food and energy and which the Federal Reserve follows more closely than the overall number, were up 0.1% in November. Producer prices are up 0.7% in the past year. “Core” producer prices are up 1.3% from a year ago, faster than the overall gain but not fast by the standards of the past several decades. As a result, some analysts still say the Federal Reserve has room to continue quantitative easing at the current pace of \$85 billion per month. We think this would be a mistake. The problems that ail the economy are fiscal and regulatory in nature; continuing to add more excess reserves to the banking system is not going to boost economic growth, but, for the time being, it won’t lift inflation either. The Fed meets next week and will release a new statement on monetary policy on Wednesday, along with an updated economic forecast and projections of future changes in short-term interest rates. Chairman Bernanke will also have a press conference where he can thoroughly explain any changes to Fed policy, or the lack thereof. At this point, we expect the Fed to use the meeting to announce the long-awaited tapering of quantitative easing and also a reduction in the unemployment threshold before the Fed will even start to consider rate hikes. Currently, the threshold is 6.5%. That will probably go down to 6% and Bernanke may hint in his press conference that the Fed has an implicit “trigger” for rate hikes when unemployment hits 5.5%. We’ll be discussing the reasons for this Fed policy forecast as well as investment implications in our Monday Morning Outlook.

Producer Price Index <i>All Data Seasonally Adjusted</i>	Nov-13	Oct-13	Sep-13	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Finished Goods	-0.1%	-0.2%	-0.1%	-1.0%	1.7%	0.7%
Ex Food and Energy	0.1%	0.2%	0.1%	1.1%	1.0%	1.3%
Food	0.0%	0.8%	-1.0%	-1.0%	1.4%	0.6%
Energy	-0.4%	-1.5%	0.5%	-5.7%	4.4%	-0.7%
Consumer Goods	-0.1%	-0.2%	-0.1%	-1.9%	2.0%	0.6%
Capital Equipment	0.1%	0.1%	0.3%	2.0%	1.0%	1.0%
Intermediate Goods	-0.5%	-0.4%	0.1%	-3.0%	-0.3%	-0.5%
Ex Food & Energy	-0.1%	-0.1%	0.1%	-0.2%	-0.2%	0.8%
Energy	-1.5%	-1.2%	0.3%	-9.2%	0.9%	-3.1%
Crude Goods	-2.6%	-0.9%	0.5%	-11.3%	-8.3%	-3.3%
Ex Food & Energy	1.4%	-0.5%	-1.0%	-0.1%	-1.7%	-5.3%
Energy	-6.6%	-2.9%	2.0%	-26.5%	-11.2%	0.6%

Source: Bureau of Labor Statistics