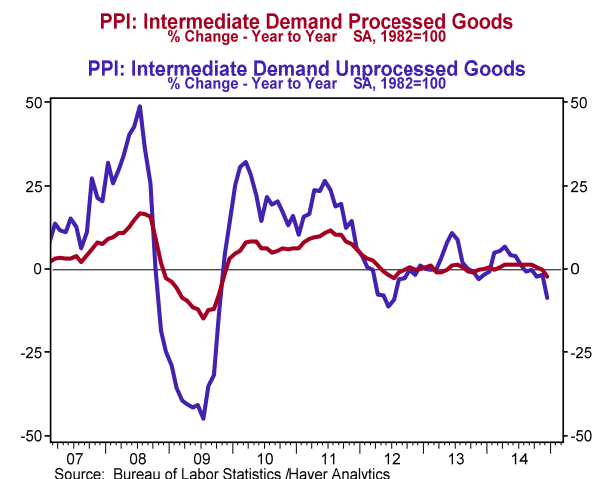
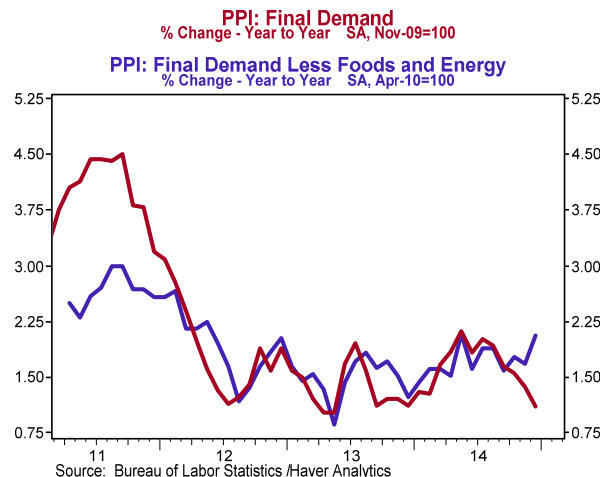


December PPI

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- The Producer Price Index (PPI) declined 0.3% in December, coming in above the consensus expected decline of 0.4%. Producer prices are up 1.1% versus a year ago.
- Energy prices led the index lower, down 6.6%. Food prices declined 0.4%. Producer prices excluding food and energy rose 0.3% in December (+0.2% among just goods).
- In the past year, prices for services are up 2.2%, while prices for goods are down 1.2%. Private capital equipment prices rose 0.1% in December and are up 1.6% in the past year.
- Prices for intermediate processed goods declined 1.7% in December, and are down 2.3% versus a year ago. Prices for intermediate unprocessed goods fell 5.0% in December, and are down 8.6% versus a year ago.

Implications: Still no sign of inflation as producer prices fell for the fourth time in five months. The decline in overall producer prices can all be attributed to energy, which fell 6.6% in December and is down 12.9% versus a year ago, a testament to fracking and horizontal drilling. Although energy prices have dropped further in January, that trend won't last forever. As a result, our forecast is still that the US suffers neither hyperinflation nor deflation. Instead, it's going to be a slow slog upward for inflation. "Core" prices, which exclude food and energy, show deflation is not setting in. Core prices rose 0.3% in December and are up 2.1% in the past year. However, prices further up the production pipeline remain quiet. Prices for intermediate processed goods are down 2.3% in the past year while prices for unprocessed goods are down 8.6%. Regardless, with the labor market improving, the Fed is still on track to start raising rates around the middle of the year. These rate hikes will not hurt the economy; monetary policy will still be loose and will likely remain that way for the first couple of years of higher short-term rates. Counterintuitively, higher short term rates may boost lending as potential borrowers hurry up their plans to avoid even higher interest rates further down the road. In other words, the Plow Horse economy won't stop when the Fed shifts gears. In other news this morning, new claims for unemployment benefits increased 19,000 last week to 316,000. We wouldn't make too much of this as claims are often very volatile in January. Continuing claims fell 51,000 to 2.42 million. Plugging these numbers into our models suggests January will be another solid month with payroll growth again exceeding 200,000. On the manufacturing front, two separate measures of factory sentiment went in different directions in January, but both signal continued growth. The Empire State index increased to +10.0 in January versus -1.2 in December, while the Philadelphia Fed index fell to +6.3 from +18.7.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-14	Nov-14	Oct-14	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand						
Goods	-0.3%	-0.2%	0.2%	-1.1%	-0.4%	1.1%
- Ex Food & Energy	-1.2%	-0.7%	-0.4%	-9.1%	-5.8%	-1.2%
Services	0.2%	-0.1%	-0.1%	0.0%	0.7%	1.3%
Private Capital Equipment	0.2%	0.1%	0.5%	3.0%	2.4%	2.2%
0.1%	0.2%	0.4%	2.6%	1.1%	1.6%	
Intermediate Demand						
Processed Goods	-1.7%	-1.0%	-0.9%	-13.6%	-7.1%	-2.3%
- Ex Food & Energy	-0.6%	-0.5%	-0.2%	-4.6%	-1.0%	0.3%
Unprocessed Goods	-5.0%	-1.3%	-2.4%	-30.0%	-24.8%	-8.6%
- Ex Food & Energy	-0.5%	-1.6%	-2.9%	-18.5%	-9.9%	-5.1%
Services	0.0%	0.3%	0.1%	1.5%	2.0%	1.8%

Source: Bureau of Labor Statistics

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.