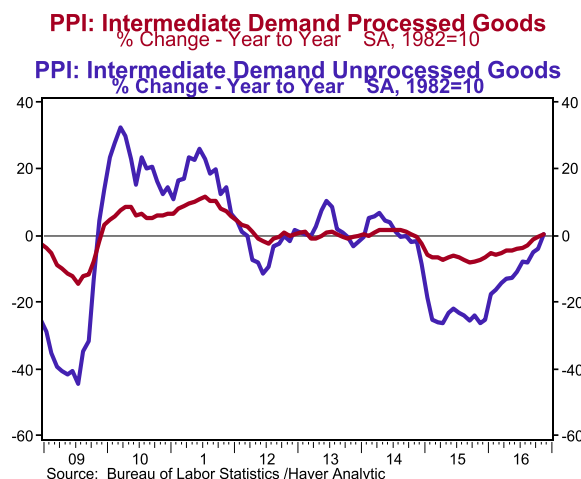
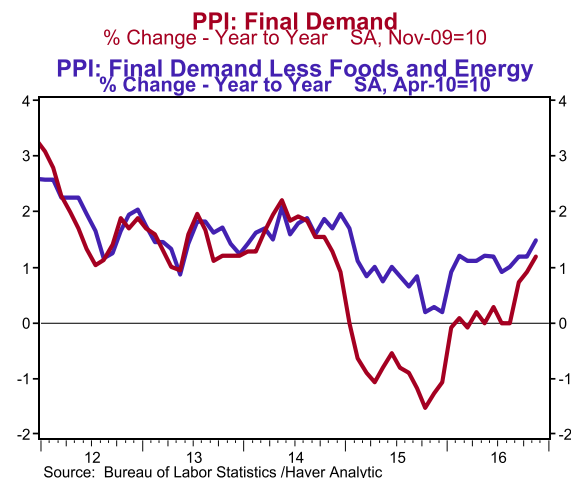


November PPI

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- The Producer Price Index (PPI) rose 0.4% in November, coming in well above the consensus expected rise of 0.1%. Producer prices are up 1.3% versus a year ago.
- Food prices increased 0.6% in November, while energy prices declined 0.3%. Producer prices excluding food and energy rose 0.4%.
- In the past year, prices for services are up 1.5%, while prices for goods are up 0.6%. Private capital equipment prices increased 0.4% in November and are up 1.9% in the past year.
- Prices for intermediate processed goods rose 0.3% in November and are up 0.2% versus a year ago. Prices for intermediate unprocessed goods were unchanged in November but are up 0.2% versus a year ago.

Implications: If there were any lingering doubts about the Fed raising rates at today’s meeting, they can now be put to rest. Producer prices jumped 0.4% in November and are up 1.3% in the past year, the largest 12-month increase since 2014. Service prices led the index higher in November, rising 0.5% as wholesalers and retailers enjoyed larger margins. Meanwhile, an 11.4% jump in iron and steel scrap prices paired with rising food costs more than offset a slight decline in energy costs. In the past year, prices for services have been the major driver pushing producer prices steadily higher, while prices for goods were muted by declining energy prices. Now, prices for goods are accelerating, up at a 2.4% annual rate in the past six months and a 4.9% rate in the past three months. We expect that story to continue as the prior headwind from energy turns into a tailwind. And, as with consumer prices, we expect that tailwind to push producer prices toward the Fed’s 2% inflation target in 2017. Stripping out the volatile food and energy categories, “core” producer prices rose 0.4% in November and are up 1.6% in the past year, a significant pickup from the 0.3% rise through the twelve months ending November 2015. So now, with all of the employment and inflation data that the Fed will have available to them before making their rate decision this afternoon, there can be little doubt what a “data dependent” Fed should do. The real question is how they may adjust their projections (the infamous “dot plots”) for the path of rates in 2017. In other recent inflation news, import prices declined 0.3% in November and are down 0.1% from a year ago. Petroleum import prices declined 4.7% in November after October’s 7.3% jump. While the long decline in energy prices that began in mid-2014 appears to be over, there will be fits and starts on the road higher. Export prices declined 0.1% in November and are down 0.3% from a year ago. It’s important to recognize that trade prices are focused on goods, where inflation has been slower to rise than in the broader service sector. In other words, inflation can become a problem even if trade prices are relatively quiet.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Nov-16	Oct-16	Sep-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.4%	0.0%	0.3%	2.6%	1.6%	1.3%
Goods	0.2%	0.4%	0.7%	4.9%	2.4%	0.6%
- Ex Food & Energy	0.2%	0.1%	0.3%	2.2%	1.5%	1.5%
Services	0.5%	-0.3%	0.1%	1.4%	1.3%	1.5%
Private Capital Equipment	0.4%	0.3%	0.2%	3.4%	0.2%	1.9%
Intermediate Demand						
Processed Goods	0.3%	0.3%	0.5%	4.4%	4.1%	0.2%
- Ex Food & Energy	0.4%	0.2%	0.3%	3.7%	3.0%	1.0%
Unprocessed Goods	0.0%	-0.6%	1.3%	3.1%	-1.8%	0.2%
- Ex Food & Energy	2.4%	-1.1%	-1.4%	-0.5%	-0.9%	8.7%
Services	0.2%	-0.6%	0.4%	0.0%	1.8%	2.3%

Source: Bureau of Labor Statistics