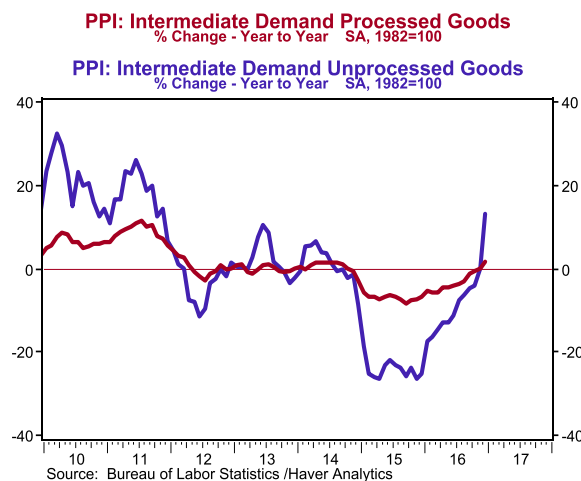
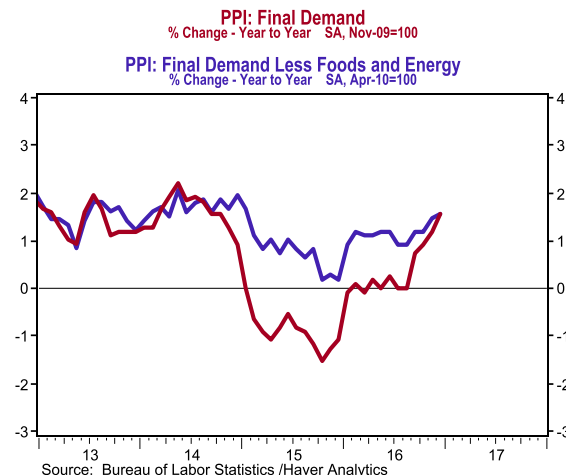


December PPI

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- The Producer Price Index (PPI) rose 0.3% in December, matching consensus expectations. Producer prices are up 1.6% versus a year ago.
- Energy prices increased 2.6% in December, while food prices rose 0.7%. Producer prices excluding food and energy rose 0.2%.
- In the past year, prices for goods are up 1.9%, while prices for services are up 1.5%. Private capital equipment prices increased 0.4% in December and are up 1.6% in the past year.
- Prices for intermediate processed goods rose 0.5% in December and are up 1.8% versus a year ago. Prices for intermediate unprocessed goods increased 8.3% in December and are up 13.2% versus a year ago.

Implications: Prices rose in nearly every category in December, finishing 2016 with the largest calendar year increase in producer prices going back to 2012. Goods prices led the index higher in December, rising 0.7% on the back of a 2.6% jump in energy prices. Since bottoming in early 2016, energy prices have been a tailwind pushing goods prices steadily higher following more than eighteen months of near constant declines. Meanwhile, service prices have shown consistent, if moderate, inflation. We expect this trend to continue in 2017, pushing overall inflation towards, and eventually above, the Fed’s 2% inflation target. Stripping out the volatile food and energy categories, “core” producer prices rose 0.2% in December and increased 1.6% in 2016, a significant pickup from the 0.2% rise for 2015. This data, paired with continued gains in employment, puts the Fed on track for three to four rate hikes in 2017. In other recent inflation news, import prices rose 0.4% in December and are up 1.8% from a year ago. Petroleum import prices jumped 7.9% in December following November’s 3.0% decline. While the long decline in energy prices that began in mid-2014 appears to be over, don’t be surprised if we see fits and starts on the road higher. Export prices also rose in December, up 0.3%, and have increased 1.1% in the past year. The Fed has plenty of inflation indicators to watch as leadership changes in Washington and new policies are put in place. But, as things currently stand, inflation appears to have greater potential for an upside surprise than a return to the near-zero pace of inflation seen as recently as late-2015.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Dec-16	Nov-16	Oct-16	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.3%	0.4%	0.0%	2.6%	1.1%	1.6%
Goods	0.7%	0.2%	0.4%	5.3%	2.4%	1.9%
- Ex Food & Energy	0.3%	0.2%	0.1%	2.2%	1.4%	1.7%
Services	0.1%	0.5%	-0.3%	1.4%	0.7%	1.5%
Private Capital Equipment	0.4%	0.4%	0.3%	4.1%	0.9%	1.6%
Intermediate Demand						
Processed Goods	0.5%	0.3%	0.3%	4.4%	3.3%	1.8%
- Ex Food & Energy	0.1%	0.4%	0.2%	3.0%	2.8%	1.5%
Unprocessed Goods	8.3%	0.0%	-0.6%	34.5%	10.1%	13.2%
- Ex Food & Energy	3.6%	2.4%	-1.1%	21.0%	6.7%	13.6%
Services	0.4%	0.2%	-0.6%	0.0%	1.8%	2.5%

Source: Bureau of Labor Statistics