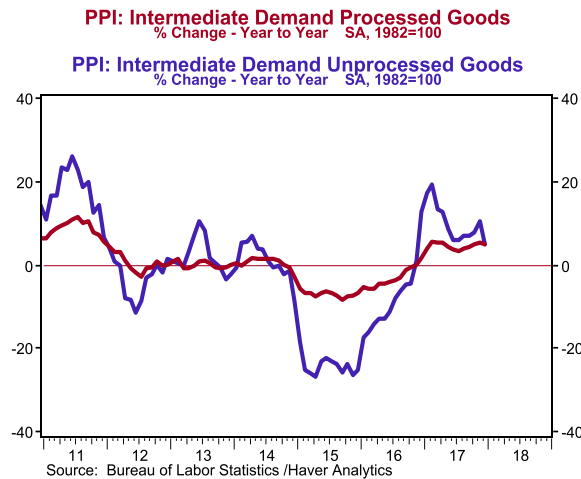
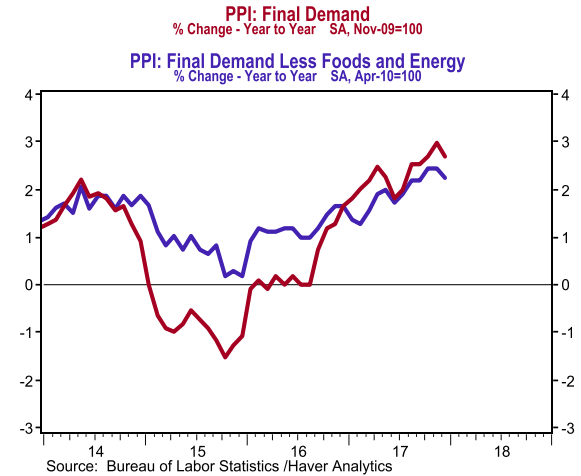


December PPI

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- The Producer Price Index (PPI) declined 0.1% in December, below the consensus expected rise of 0.2%. Producer prices are up 2.6% versus a year ago.
- Food prices declined 0.7% in December, while energy prices were unchanged. Producer prices excluding food and energy declined 0.1%.
- In the past year, prices for goods are up 3.5%, while prices for services are up 2.2%. Private capital equipment prices increased 0.1% in December and are up 2.1% in the past year.
- Prices for intermediate processed goods rose 0.5% in December and are up 5.1% versus a year ago. Prices for intermediate unprocessed goods increased 2.1% in December and are up 5.2% versus a year ago.



Implications: Producer prices fell in December, the first drop for any month in more than a year. However, price changes from a year ago remain comfortably above the Fed’s 2% inflation target. Declining margins for wholesalers – most notably automotive fuel dealers – and lower food prices led producer prices lower in December. Energy prices were unchanged in December, as a 3.9% decline in gas prices was offset by rising costs for electric, natural gas, and heating oil. Meanwhile food prices, which were up in the prior two months, declined in December, led by a 6.3% drop in prices for beef and veal. Strip out the typically volatile food and energy groupings, and “core” producer prices fell 0.1% in December but are up 2.3% in the past year. For comparison, “core” prices rose 1.7% in the twelve months ending December 2016, and were up 0.2% in the twelve months ending December 2015. No matter how you cut it, it’s clear inflation is on the rise. And a look further down the pipeline shows the trend higher should continue in the months to come. Intermediate processed goods rose 0.5% in December and are up 5.1% from a year ago, while unprocessed goods increased 2.1% in December and are up 5.2% in the past year. And both categories have seen a pickup in price increases over the past six and three-month periods. Given these figures, and with employment growth remaining strong and inflation rising, we expect three rate hikes in 2018, but believe the chance of a fourth rate hike is much higher than the likelihood we see just two. In other recent inflation news, import prices rose 0.1% in December while export prices declined 0.1%. In the past year, import prices are up 3.0% while export prices have increased 2.6%. On the jobs front, initial jobless claims rose 11,000 last week – likely impacted by significant winter storms on the east coast - while continuing claims fell 35,000. Continuing claims are now the lowest since 1973. Look for another solid jobs report in January, although the continued cold spell in much of the country might put some temporary downward pressure on payrolls for the month. If so, don’t fall into the trap of thinking the good times are over. Job gains should rebound in the following months.

Producer Price Index	Dec-17	Nov-17	Oct-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Final Demand	-0.1%	0.4%	0.4%	3.2%	3.0%	2.6%
Goods	0.0%	1.0%	0.3%	5.1%	5.0%	3.5%
- Ex Food & Energy	0.2%	0.3%	0.3%	2.8%	2.1%	2.3%
Services	-0.2%	0.2%	0.5%	2.1%	1.9%	2.2%
Private Capital Equipment	0.1%	-0.2%	0.3%	0.7%	2.4%	2.1%
Intermediate Demand						
Processed Goods	0.5%	0.5%	1.0%	8.4%	5.9%	5.1%
- Ex Food & Energy	0.5%	0.3%	0.8%	6.6%	3.8%	3.8%
Unprocessed Goods	2.1%	3.2%	0.0%	23.2%	8.9%	5.2%
- Ex Food & Energy	1.4%	0.8%	-3.7%	-6.3%	5.1%	8.2%
Services	-0.1%	0.7%	0.3%	3.5%	2.1%	2.9%

Source: Bureau of Labor Statistics