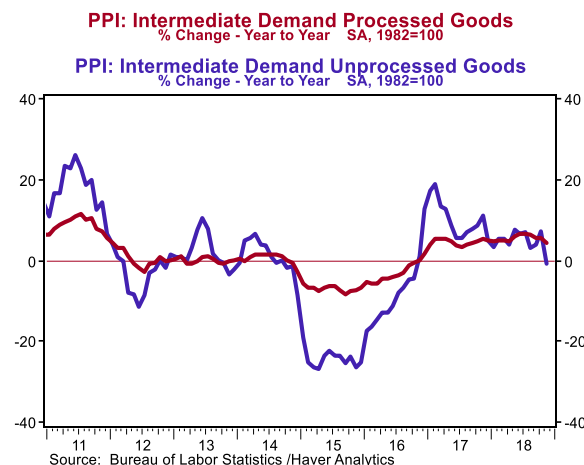
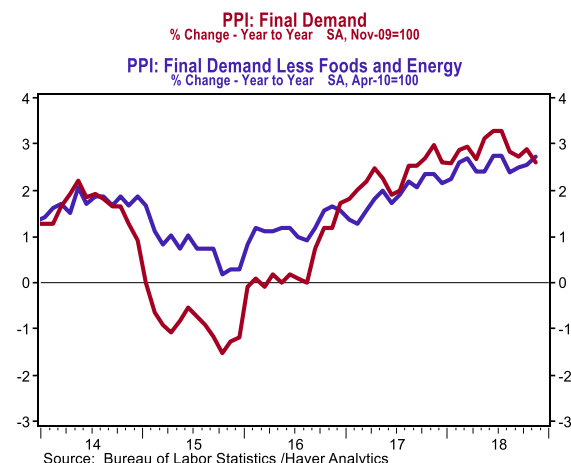


November PPI

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- The Producer Price Index (PPI) rose 0.1% in November, above the consensus expectation of no change. Producer prices are up 2.5% versus a year ago.
- Energy prices fell 5.0% in November, while food prices increased 1.3%. Producer prices excluding food and energy rose 0.3% in November and are up 2.7% in the past year.
- In the past year, prices for goods are up 2.2%, while prices for services are up 2.6%. Private capital equipment prices were unchanged in November but are up 2.9% in the past year.
- Prices for intermediate processed goods fell 0.7% in November but are up 4.3% versus a year ago. Prices for intermediate unprocessed goods fell 5.3% in November and are down 0.7% versus a year ago.

Implications: After posting the largest single-month increase in more than six years in October the producer price index continued its climb higher in November, though at a slower pace. The main source of strength in today’s report came from final demand services where prices rose 0.3%, offsetting the 0.4% decline in prices for final demand goods, keeping the headline index positive for the month. Looking at the details of final demand services shows that prices were driven higher by increased margins to wholesalers, which rose 0.3%. More specifically, margins for fuels and lubricants retailing soared 25.9%, probably the result of wholesalers not fully passing on November’s 14% drop in gasoline prices to their customers. Recent increases in wholesaler margins could be a sign of rising demand paired with limited supply; ISM reports have shown strong order and business activity, but companies struggling to hire and ship products due to a tight labor market. Or it could simply be companies adjusting prices higher following months of rising input costs cutting into margins; remember, these wholesaler margins fell overall in Q3. The biggest source of weakness in today’s report was the 5% decline in final demand energy, which represents the largest monthly drop for that index since the oil price crash of 2015. This was driven by the decline in gasoline prices mentioned above and resulted in an overall drop of 0.4% in final demand goods for November. Some analysts have recently been citing falling energy prices as a reason for the Federal Reserve to hold off on continued rate hikes in 2019. However, no matter which way you cut it – headline prices up 2.5% in the past year or “core” prices up 2.7% -- trend inflation clearly stands above the Fed’s 2% target. These data support our expectation for one more hike this year and up to four more hikes in 2019.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Nov-18	Oct-18	Sep-18	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.1%	0.6%	0.2%	3.5%	2.1%	2.5%
Goods	-0.4%	0.6%	-0.1%	0.3%	0.5%	2.2%
- Ex Food & Energy	0.3%	0.0%	0.2%	2.1%	2.1%	2.5%
Services	0.3%	0.7%	0.3%	4.9%	2.9%	2.6%
Private Capital Equipment	0.0%	0.5%	0.3%	3.5%	2.3%	2.9%
Intermediate Demand						
Processed Goods	-0.7%	0.8%	0.0%	0.6%	1.9%	4.3%
- Ex Food & Energy	-0.2%	0.4%	0.2%	1.4%	2.9%	4.2%
Unprocessed Goods	-5.3%	3.6%	1.7%	-0.8%	-9.7%	-0.7%
- Ex Food & Energy	2.4%	0.0%	-2.8%	-1.8%	-6.9%	3.3%
Services	0.2%	0.4%	0.5%	4.5%	3.1%	3.1%

Source: Bureau of Labor Statistics