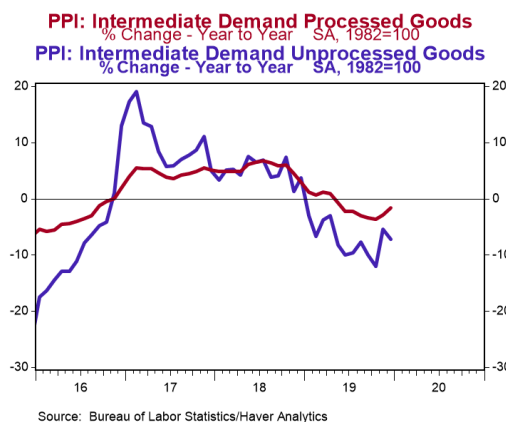
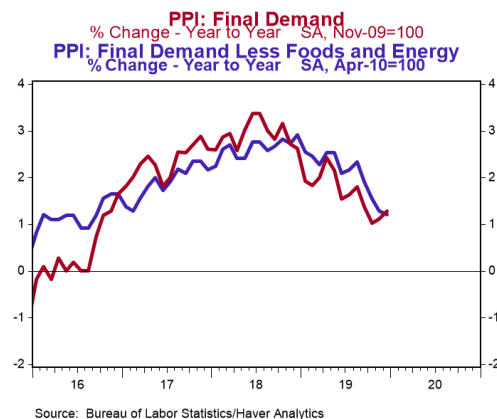


December PPI

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- The Producer Price Index (PPI) rose 0.1% in December, coming in below the consensus expected increase of 0.2%. Producer prices are up 1.3% versus a year ago.
- Energy prices rose 1.5% in December, while food prices declined 0.2%. Producer prices excluding food and energy rose 0.1% in December, and are up 1.1% in the past year.
- In the past year, prices for goods are up 1.1%, while prices for services have increased 1.3%. Private capital equipment prices rose 0.2% in December and are up 1.0% in the past year.
- Prices for intermediate processed goods rose 0.1% in December, but are down 1.7% versus a year ago. Prices for intermediate unprocessed goods increased 1.8% in December, but are down 7.3% versus a year ago.

Implications: Following in the tracks of yesterday’s report on consumer prices, today’s print on producer prices shows prices moving higher, but at a modest pace. Producer prices rose 0.1% in December as gasoline prices – up 3.7% - led the index higher. Food prices declined in December as rising costs for fresh fruit and pork were more than offset by a decline in prices for beef and veal. Strip out these typically volatile food and energy categories, and “core” prices rose 0.1% in December. Over the past twelve-months, core prices are up 1.1%, the smallest year-to-year increase since late 2016. Within core prices, the cost of goods rose 0.3% in December and has shown acceleration of late. While goods prices are up 1.1% in the past year, they have risen at a faster 1.6% annualized rate over the past six months, and a 5.3% annualized rate over the past three months. This has flowed through to the headline index as well, where producer prices are up 1.3% in the past year but up at a 2.0% annualized rate in the past three months. Service prices, meanwhile, were unchanged in December following the 0.3% decline in November, which matched the largest monthly drop for that series since early 2015. Within services, margins for trade wholesalers fell 0.3%, but that was offset by an increase in costs for transportation and warehousing. We expect both headline and core prices to trend toward 2% in 2020. Further down the pipeline, prices for intermediate demand processed goods rose 0.1%, while intermediate demand unprocessed goods increased 1.8%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels, but, as with the measures noted above, prices have been accelerating of late. Some may point to today’s report as a sign that low inflation should still be a concern for the Fed, urging them to continue rate cuts in 2020, but we think that would be a mistake. Core consumer inflation stands above 2% on a twelve-month basis, while core PCE prices (the Fed’s preferred measure) are up 1.6% in the past year. Paired with the very healthy employment market, these signal an economy with no need for Fed intervention. In manufacturing news this morning, the Empire State Index, which measures factory sentiment in the New York region, rose to +4.8 in January from +3.3 in December, signaling continued growth in that area of the country.



Producer Price Index	Dec-19	Nov-19	Oct-19	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%	0.0%	0.4%	2.0%	1.0%	1.3%
Goods	0.3%	0.3%	0.7%	5.3%	1.6%	1.1%
- Ex Food & Energy	0.1%	0.2%	0.0%	1.0%	0.7%	0.6%
Services	0.0%	-0.3%	0.3%	0.0%	0.5%	1.3%
Private Capital Equipment	0.2%	-0.2%	0.0%	0.0%	0.0%	1.0%
Intermediate Demand	0.1%	0.2%	0.4%	2.9%	0.2%	-1.7%
Processed Goods	-0.2%	-0.3%	0.1%	-1.2%	-1.8%	-1.9%
Unprocessed Goods	1.8%	3.9%	1.0%	30.0%	9.4%	-7.3%
- Ex Food & Energy	3.0%	0.3%	-1.3%	7.8%	3.2%	-5.3%
Services	0.4%	-0.1%	-0.2%	0.7%	1.2%	1.8%

Source: Bureau of Labor Statistics