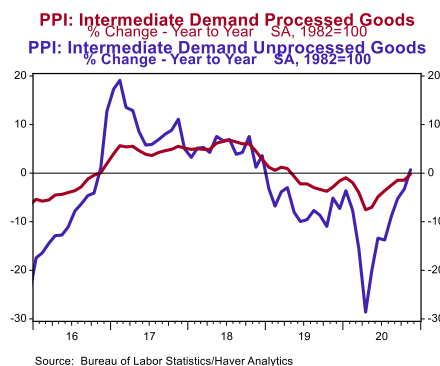
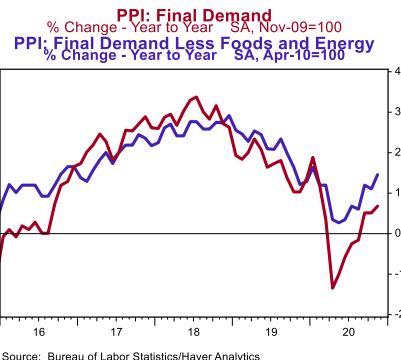


November PPI

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- The Producer Price Index (PPI) rose 0.1% in November, matching consensus expectations. Producer prices are up 0.8% versus a year ago.
- Energy prices rose 1.2% in November, while food prices increased 0.5%. Producer prices excluding food and energy rose 0.1% in November and are up 1.4% in the past year.
- In the past year, prices for goods are down 0.8%, while prices for services have risen 1.5%. Private capital equipment prices declined 0.7% in November, but remain up 0.1% in the past year.
- Prices for intermediate processed goods rose 1.4% in November, but are down 0.3% versus a year ago. Prices for intermediate unprocessed goods jumped 7.3% in November and are up 0.6% versus a year ago.



Implications: Producer prices rose in November for a seventh consecutive month, and are up near the fastest six-month annualized pace in nearly a decade at 3.8%, a sharp rebound from the -3.5% annualized pace for the six months ending in April. Prices for goods pushed the index higher, while prices for services were unchanged on the month. Digging into the details shows that a key contributor to the November rise came from final demand energy, up 1.2%, led by a surge in the cost for diesel fuels as well as a bump in costs for natural gas and electricity. The typically volatile food category also showed a notable rise, up 0.5% in November on the back of higher costs for meats and poultry. Strip out the food and energy categories, and “core” producer prices still rose 0.1% in November. Over recent months, the PPI has seen price pressure coming from transportation and warehousing services. While this measure declined 0.9% in November, the pullback came from passenger transport (down 6.9% in November), while the transport and warehousing of goods rose 1.2%. A continued shortage of delivery drivers – also noted across other economic reports including the ISM surveys – has put upward price pressure on costs. Core producer prices are up a modest 1.4% over the past twelve months, but expect that to move higher in the months ahead. Supply constraints, limitations on activity, and the general economic disruptions related to COVID-19 will continue to muddy the data for the foreseeable future, but what is clear is the massive increase in the M2 money supply, up 25.1% in the past year. Once the dust finally settles – and it will – we expect inflation to trend back to 2% and then higher. The Federal Reserve is loose and, as it has made abundantly clear, plans to stay that way for the foreseeable future. Meanwhile, businesses operating at limited capacity will remain a headwind for economic activity. The result will eventually be too much money chasing too few goods (and services), meaning higher – but not hyper – inflation. Further down the pipeline, prices for intermediate demand processed goods rose 1.4% in November, while intermediate demand unprocessed goods rose 7.3%. While intermediate processed goods prices are still down 0.3% from a year ago, they have been trending higher on a year-ago basis since April, when they were down 7.6% from April 2019. Intermediate unprocessed goods turned positive on a year-to-year basis (+0.6%) in November for the first time since late 2018, and have shown significant movement since bottoming at a 28.7% 12-month decline back in April. We still have a long way to go to get back to where we were at the start of 2020, and the next few months may be a bit rocky as we deal with rising COVID-19 cases over the winter, but the recovery is clearly under way, and we expect growth will march higher in the year ahead.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Nov-20	Oct-20	Sep-20	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	0.1%	0.3%	0.4%	3.4%	3.8%	0.8%
Goods	0.4%	0.5%	0.4%	5.8%	5.6%	-0.8%
- Ex Food & Energy	0.2%	0.0%	0.4%	2.4%	2.6%	1.3%
Services	0.0%	0.2%	0.4%	2.3%	2.9%	1.5%
Private Capital Equipment	-0.7%	-0.1%	0.0%	-3.0%	1.4%	0.1%
Intermediate Demand						
Processed Goods	1.4%	0.3%	1.0%	11.1%	12.7%	-0.3%
- Ex Food & Energy	0.1%	0.2%	1.3%	6.4%	6.3%	0.6%
Unprocessed Goods	7.3%	2.6%	3.9%	70.7%	59.3%	0.6%
- Ex Food & Energy	2.3%	0.6%	7.2%	47.9%	29.3%	18.6%
Services	-0.1%	0.8%	1.0%	7.1%	6.6%	1.6%

Source: Bureau of Labor Statistics