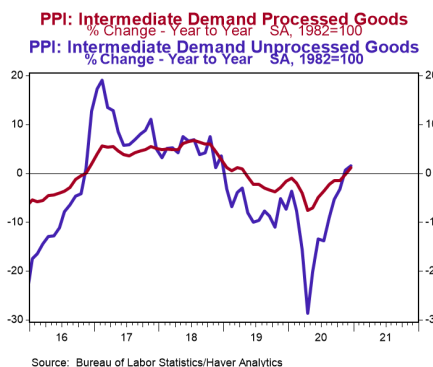
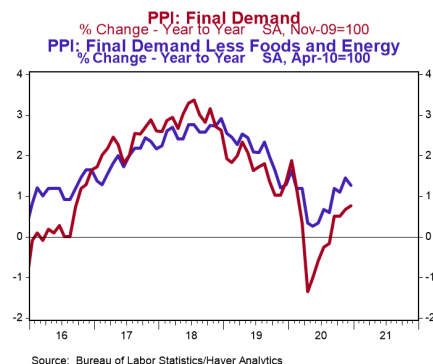


December PPI

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- The Producer Price Index (PPI) rose 0.3% in December, versus a consensus expected +0.4%. Producer prices are up 0.8% versus a year ago.
- Energy prices rose 5.5% in December, while food prices declined 0.1%. Producer prices excluding food and energy rose 0.1% in December and are up 1.2% in the past year.
- In the past year, prices for goods are up 0.2%, while prices for services have risen 1.1%. Private capital equipment prices increased 0.3% in December and are up 0.2% in the past year.
- Prices for intermediate processed goods rose 1.5% in December and are up 1.3% versus a year ago. Prices for intermediate unprocessed goods increased 2.2% in December and are up 1.5% versus a year ago.



Implications: After bottoming in April, producer prices are up 4.1%, near the fastest annualized pace in almost a decade, a sharp rebound from the 3.5% annualized decline for the six months ending in April. Prices for goods pushed the index higher in December, while prices for services declined modestly. Digging into the details shows that, a key contributor to the December rise came from final demand energy, up 5.5%, led by a surge in costs for gasoline and diesel fuel. The typically volatile food category moved down 0.1%, as rising costs for meats and poultry were more than offset by a decline in prices for vegetables and dairy products. Strip out the food and energy categories, and “core” producer prices rose a more modest 0.1% in December. Over recent months, the PPI has had price pressure from transportation and warehousing. While passenger transportation prices remain well below levels at the start of the year, and are down 29.4% at an annualized rate over the past six months, costs for transportation and warehousing of goods has moved in the opposite direction, up at a 9.6% annualized rate over the same period. A continued shortage of delivery drivers has put upward price pressure on costs. Core producer prices are up a modest 1.2% 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% in the past year. Once the dust finally settles – and that process has started – 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 1.5% in December, while intermediate demand unprocessed goods rose 2.2% (and are up an astonishing 50.5% at an annualized rate over the past six months). Also notable is that intermediate processed goods prices are now up 1.3% from a year ago, marking the first positive twelve-month reading since early 2019. Intermediate unprocessed goods are up 1.5% from a year ago, and have shown significant movement since bottoming at a 28.6% 12-month decline back in April. In other recent news on the inflation front, import prices jumped 0.9% in December on the back of a 9.1% surge in petroleum prices. Meanwhile, export prices increased 1.1%, as both agricultural and industrial export prices moved broadly higher. In the past year, import prices are down 0.3%, while export prices are up 0.2%.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Dec-20	Nov-20	Oct-20	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.3%	0.1%	0.3%	3.1%	4.0%	0.8%
Goods	1.1%	0.4%	0.5%	8.7%	7.2%	0.2%
- Ex Food & Energy	0.5%	0.2%	0.0%	2.7%	3.4%	1.7%
Services	-0.1%	0.0%	0.2%	0.3%	2.4%	1.1%
Private Capital Equipment	0.3%	-0.7%	-0.1%	-2.0%	1.0%	0.2%
Intermediate Demand						
Processed Goods	1.5%	1.4%	0.3%	13.2%	13.1%	1.3%
- Ex Food & Energy	1.2%	0.1%	0.2%	6.3%	7.9%	2.0%
Unprocessed Goods	2.2%	7.3%	2.6%	59.7%	50.5%	1.5%
- Ex Food & Energy	4.5%	2.3%	0.6%	33.9%	38.6%	20.3%
Services	0.4%	-0.1%	0.8%	4.6%	6.8%	1.6%

Source: Bureau of Labor Statistics