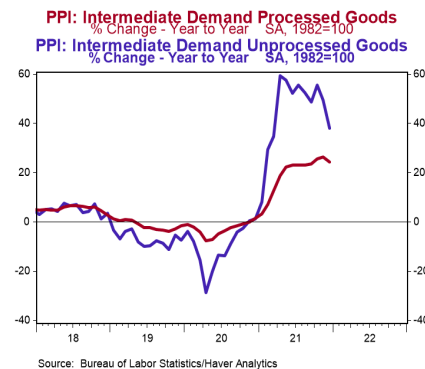
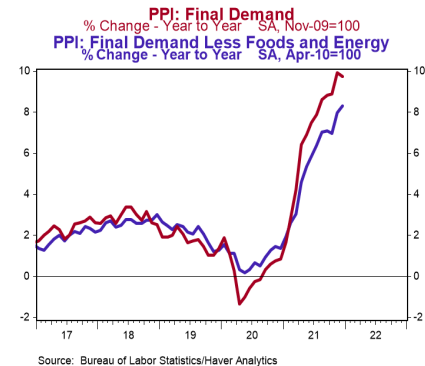


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist

December PPI

- The Producer Price Index (PPI) rose 0.2% in December, below the consensus expected +0.4%. Producer prices are up 9.7% versus a year ago.
- Food prices fell 0.6% in December, while energy prices dropped 3.3%. Producer prices excluding food and energy increased 0.5% in December and are up 8.3% in the past year.
- In the past year, prices for goods are up 13.4%, while prices for services have risen 7.9%. Private capital equipment prices increased 0.5% in December and are up 9.4% in the past year.
- Prices for intermediate processed goods fell 0.3% in December but are up 24.4% versus a year ago. Prices for intermediate unprocessed goods fell 5.6% in December but are up 38.0% versus a year ago.



Implications: Producer prices rose a moderate 0.2% in December, the smallest increase in nearly a year and less than the consensus expected 0.4%. However, this doesn't mean the inflation scare is over; it just means that commodity prices temporarily fell in December and the PPI is more heavily weighted toward commodities than consumer prices. Commodity prices have since rebounded, so look for a faster increase in the PPI next month. In the meantime, producer prices were up 9.7% in the year of 2021, the largest calendar-year increase since this series was first calculated in 2010. In terms of details for December, services led the overall index higher, rising 0.5% for the month, where over half of the broad-based advance can be traced to margins received for final demand trade services. Increasing prices for services were largely offset by prices for goods, which declined 0.4% in December, the first drop for the category since April 2020. The volatile energy and food categories were drivers of the decline in goods prices, falling 3.3% and 0.6%, respectively. A major factor for the decline in goods prices was the index for gasoline, which moved down 6.1%. Stripping out the food and energy categories, "core" prices still rose 0.5% in December and are up 8.3% in the past year. It simply doesn't matter how you cut it or which inflation gauge you prefer, they all show inflation running well above where the Fed said it would at the start of 2021. Will that trend continue in 2022? While for years after the financial crisis the question from many was whether the Fed could induce even 2% inflation, the question now is whether the Fed will be able to get back down or near 2% in the foreseeable future. And while producers are still hampered with supply chain woes, demand has been amplified by a M2 money supply that is 39% above pre-COVID levels; Fed policymakers have their work cut out for them. In employment news this morning, initial unemployment claims rose 23,000 to 230,000 last week. Meanwhile, continuing claims fell 194,000 to 1.559 million, the lowest since 1973.

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Dec-21	Nov-21	Oct-21	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	0.2%	1.0%	0.6%	7.3%	8.2%	9.7%
Goods	-0.4%	1.1%	1.3%	8.3%	9.9%	13.4%
- Ex Food & Energy	0.5%	0.8%	0.6%	7.8%	8.0%	9.4%
Services	0.5%	0.9%	0.2%	6.3%	7.3%	7.9%
Private Capital Equipment	0.5%	0.7%	1.6%	11.5%	10.6%	9.4%
Intermediate Demand						
Processed Goods	-0.3%	1.6%	2.4%	15.8%	15.5%	24.4%
- Ex Food & Energy	0.7%	1.3%	1.6%	15.6%	15.0%	23.3%
Unprocessed Goods	-5.6%	2.1%	5.8%	8.1%	20.5%	38.0%
- Ex Food & Energy	-2.0%	3.9%	-1.6%	1.0%	-0.1%	22.9%
Services	0.8%	0.3%	0.0%	4.7%	5.2%	8.0%

Source: Bureau of Labor Statistics