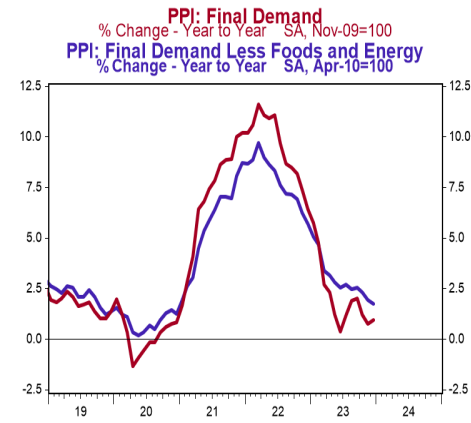


December PPI

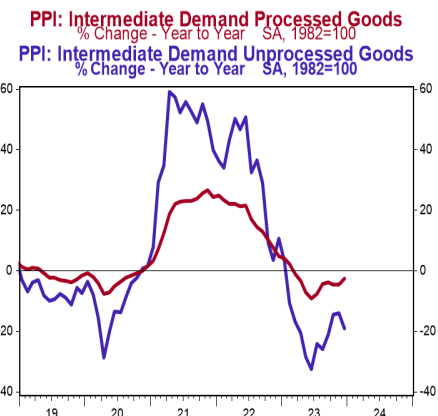
Andrew Opdyke, CFA – Senior Economist
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist

- The Producer Price Index (PPI) declined 0.1% in December, coming in below the consensus expected +0.1%. Producer prices are up 1.0% versus a year ago.
- Energy prices declined 1.2% in December, while food prices declined 0.9%. Producer prices excluding food and energy were unchanged in December but are up 1.8% versus a year ago.
- In the past year, prices for goods have declined 0.8%, while prices for services have risen 1.8%. Private capital equipment prices fell 0.5% in December but are up 1.1% in the past year.
- Prices for intermediate processed goods declined 0.6% in December and are down 2.7% versus a year ago. Prices for intermediate unprocessed goods fell 4.4% in December and are down 19.0% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics

Implications: In spite of the second month in a row of declining overall producer prices (down 0.1% in November and December), it’s too soon to declare victory over inflation. Yes, monetary policy is tighter, but engineering miracles are still pulling energy prices lower. In December, energy prices fell 1.2%, while over the past three months they have fallen at a massive 34.4% annualized rate. Food prices fell 0.9% in December. Stripping out these two volatile components shows “core” prices were unchanged in December, bringing the twelve-month change to 1.8%, the lowest reading since December of 2020. With producer prices now at or below the 2.0% inflation target for both headline and core readings, some will suggest that the inflation fight is complete. However [yesterday’s report on consumer prices](#) shows the Fed still has work to do, with consumer inflation accelerating to close out the year while the critical housing component suggests the path to 2.0% will have bumps along the way. Diving into the details of today’s PPI report shows that goods prices fell 0.4% in December (energy accounted for more than half of that decline), while services prices were unchanged as higher prices for services less trade, transportation, and warehousing were partially offset by a drop in costs for transportation and warehousing. Further back in the pipeline, processed goods prices fell 0.6% in December and are now down 2.7% in the past year. Meanwhile unprocessed goods prices fell 4.4% in December and are down 19.0% in the past year. Monetary policy first affects growth, and then with a longer lag, inflation. We have yet to see a major impact on growth. As a result, while we are happy to see some prices retreat, there is little evidence yet that Fed policy has reversed its mistakes.



Source: Bureau of Labor Statistics/Haver Analytics

Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Dec-23	Nov-23	Oct-23	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	-0.1%	-0.1%	-0.4%	-2.6%	2.0%	1.0%
Goods	-0.4%	-0.3%	-1.4%	-8.0%	1.9%	-0.8%
- Ex Food & Energy	0.0%	0.1%	0.0%	0.7%	1.0%	1.8%
Services	0.0%	0.0%	0.0%	-0.1%	2.2%	1.8%
Private Capital Equipment	-0.5%	0.1%	-0.2%	-2.3%	1.6%	1.1%
Intermediate Demand						
Processed Goods	-0.6%	-0.4%	-1.0%	-8.1%	0.5%	-2.7%
- Ex Food & Energy	0.2%	-0.2%	-0.1%	-0.3%	-1.5%	-2.5%
Unprocessed Goods	-4.4%	-2.4%	-2.0%	-30.1%	-2.2%	-19.0%
- Ex Food & Energy	0.2%	0.9%	0.0%	4.8%	-5.2%	-3.0%
Services	0.4%	0.3%	0.0%	3.0%	2.8%	3.4%

Source: Bureau of Labor Statistics