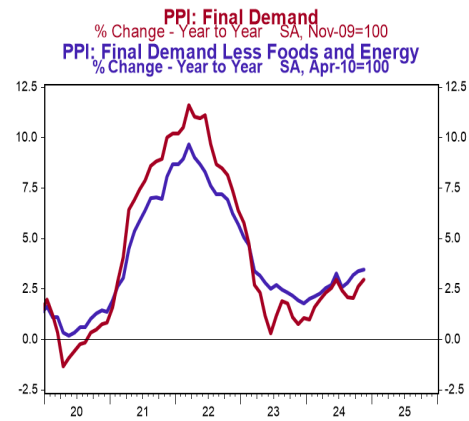


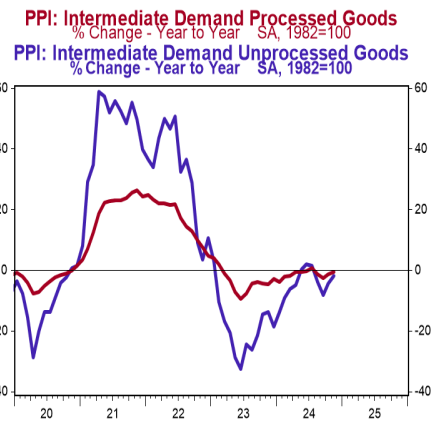
November PPI

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

- The Producer Price Index (PPI) rose 0.4% in November, coming in above the consensus expected increase of 0.2%. Producer prices are up 3.0% versus a year ago.
- Food prices surged 3.1% in November, while energy prices rose 0.2%. Producer prices excluding food and energy rose 0.2% in November and are up 3.4% versus a year ago.
- In the past year, prices for goods are up 1.1%, while prices for services have increased 3.9%. Private capital equipment prices rose 0.4% in November and are up 3.6% in the past year.
- Prices for intermediate processed goods were unchanged in November but are down 0.5% versus a year ago. Prices for intermediate unprocessed goods increased 0.6% in November but are down 1.9% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



Source: Bureau of Labor Statistics/Haver Analytics

Implications: While it looks all but certain the Federal Reserve will cut rates once again when they meet next week, it is not at all clear that inflation problems are behind us. Producer prices rose 0.4% in November, and prices have been accelerating over the past six months. The rise in November was led by food prices, which jumped 3.1% in November due to a 54.6% surge in egg prices (a breakout of bird flu has hurt egg production), while energy prices rose 0.2%. The food and energy categories have played an outsized role in the inflation readings of recent months, but even when you strip out these historically volatile components, “core” producer prices still rose 0.2% in November and are up 3.4% in the past year, a notable acceleration from the 1.9% reading for the twelve months ending November 2023. Diving into the details of today’s report shows service prices led the core index higher, rising 0.2% in November and up 3.9% in the past year. The November increase in services was led by final demand trade services (think margins received by wholesalers and retailers), which more than offset declining costs for transportation and warehousing services. Prices for goods excluding food and energy rose 0.2% in November and are up 2.2% from a year ago. Further back in the supply chain, prices in November were unchanged for intermediate demand processed goods and rose 0.6% for unprocessed goods, but prices in both categories are down in the past year.

The direction of inflation moving forward is very likely to be dictated by 1) the services side of the economy, which suffered heavily during the COVID shutdowns but has since returned to the forefront and 2) changes in the money supply, which, after surging in 2020-21, peaked in early 2022. Although the M2 measure of money has been rising gradually since last November, it’s still down from the peak in April 2022. An epic battle to stem government spending is likely to unfold in Washington next year, and there is a very real risk that the Fed could get overly aggressive in cutting rates if a pullback in federal spending temporarily results in slower economic growth. In turn, lower interest rates could fan the embers of inflation, re-igniting the fire that the Fed has spent the last three years trying to extinguish. On the labor front this morning, initial jobless claims rose 17,000 last week to 242,000. Meanwhile, continuing claims increased 15,000 to 1.886 million. These figures are consistent with continued job growth in December, but at a slower pace than earlier this year.

| Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i> | Nov-24 | Oct-24 | Sep-24 | 3-mo % Ch. <i>annualized</i> | 6-mo % Ch. <i>annualized</i> | Yr to Yr <i>% Change</i> |
|----------------------------------------------------------------------------------------|---------------|---------------|---------------|----------------------------------------|----------------------------------------|------------------------------------|
| Final Demand | 0.4% | 0.3% | 0.2% | 3.3% | 3.1% | 3.0% |
| Goods | 0.7% | 0.1% | -0.3% | 2.3% | 1.6% | 1.1% |
| - Ex Food & Energy | 0.2% | 0.2% | 0.2% | 2.2% | 2.0% | 2.2% |
| Services | 0.2% | 0.3% | 0.4% | 3.9% | 3.9% | 3.9% |
| Private Capital Equipment | 0.4% | 0.3% | 0.7% | 5.6% | 5.9% | 3.6% |
| Intermediate Demand | | | | | | |
| Processed Goods | 0.0% | 0.6% | -0.8% | -1.3% | 0.1% | -0.5% |
| - Ex Food & Energy | 0.1% | 0.3% | -0.1% | 1.7% | 1.0% | -0.8% |
| Unprocessed Goods | 0.6% | 2.4% | -1.6% | 5.4% | 1.0% | -1.9% |
| - Ex Food & Energy | 0.4% | 1.7% | 1.8% | 16.5% | 5.4% | 3.0% |
| Services | -0.3% | 0.2% | 0.2% | 0.2% | 1.7% | 3.0% |

Source: Bureau of Labor Statistics