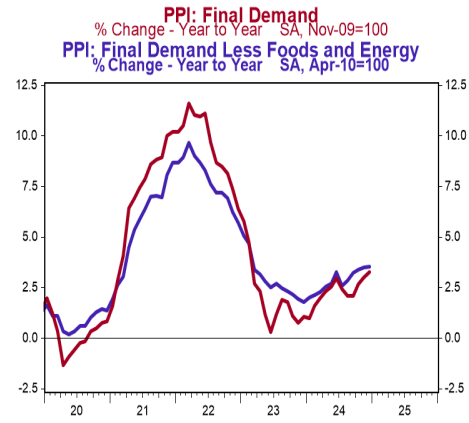


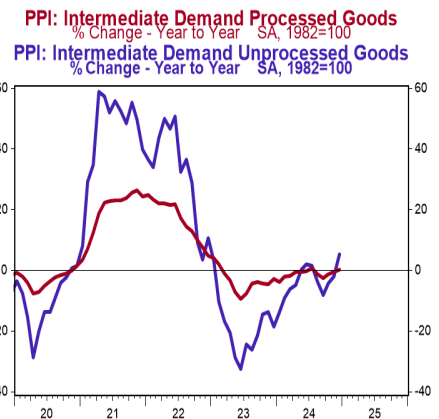
# December PPI

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- The Producer Price Index (PPI) rose 0.2% in December, coming in below the consensus expected increase of 0.4%. Producer prices are up 3.3% versus a year ago.
- Energy prices rose 3.5% in December, while food prices declined 0.1%. Producer prices excluding food and energy were unchanged in December but are up 3.5% versus a year ago.
- In the past year, prices for goods are up 1.8%, while prices for services have increased 4.0%. Private capital equipment prices declined 0.2% in December but are up 4.5% in the past year.
- Prices for intermediate processed goods rose 0.3% in December and are up 0.2% versus a year ago. Prices for intermediate unprocessed goods increased 3.2% in December and are up 5.1% versus a year ago.



Source: Bureau of Labor Statistics/Haver Analytics



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**Implications:** Producer prices ended 2024 on a calmer note, but a trend higher in year-ago comparisons will have inflation front and center for the Fed once again in 2025. Producer prices rose 0.2% in December, coming in below expectations, but – at 3.3% higher than a year ago – remain notably above the Fed’s 2% inflation target, and are also running above target when looking at three-month and six-month annualized rates. The rise in December was led by energy prices, which jumped 3.5% in December due to a 9.7% surge in gasoline prices, while food prices declined 0.1% following a jump in November. The food and energy categories have played an outsized role in recent months, and when you strip out these historically volatile components, “core” producer prices were unchanged in December but are up 3.5% in the past year, a notable acceleration from the 1.8% reading for the twelve months ending December 2023. Diving into the details of today’s report shows “core” prices saw a mix of offsetting activity. Within services, prices for transportation and warehousing services rose 2.2% in December, but were offset by declines in margins received by wholesalers. On the goods side, prices outside of energy were muted, with little to no movement across a broad range of goods. Further back in the supply chain, prices in December rose 0.3% for intermediate demand processed goods and jumped 3.2% for unprocessed goods. 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 December, it’s still down from the peak in April 2022. An epic battle to stem government spending is likely to unfold in Washington this 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.

<b>Producer Price Index</b> <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	<b>Dec-24</b>	<b>Nov-24</b>	<b>Oct-24</b>	<b>3-mo % Ch.</b> <i>annualized</i>	<b>6-mo % Ch.</b> <i>annualized</i>	<b>Yr to Yr</b> <i>% Change</i>
<b>Final Demand</b>	<b>0.2%</b>	0.4%	0.2%	3.3%	2.8%	3.3%
<b>Goods</b>	<b>0.6%</b>	0.7%	0.1%	6.0%	3.3%	1.8%
<b>- Ex Food &amp; Energy</b>	<b>0.0%</b>	0.2%	0.1%	1.5%	1.7%	2.1%
<b>Services</b>	<b>0.0%</b>	0.3%	0.3%	2.3%	2.6%	4.0%
<b>Private Capital Equipment</b>	<b>-0.2%</b>	0.6%	0.3%	2.8%	3.9%	4.5%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>0.3%</b>	0.0%	0.4%	3.0%	0.7%	0.2%
<b>- Ex Food &amp; Energy</b>	<b>0.0%</b>	0.2%	0.2%	1.6%	0.8%	-0.1%
<b>Unprocessed Goods</b>	<b>3.2%</b>	0.1%	2.4%	25.2%	5.5%	5.1%
<b>- Ex Food &amp; Energy</b>	<b>-1.8%</b>	0.6%	1.4%	0.8%	2.6%	0.6%
<b>Services</b>	<b>0.4%</b>	-0.3%	0.1%	1.0%	1.7%	3.0%

Source: Bureau of Labor Statistics