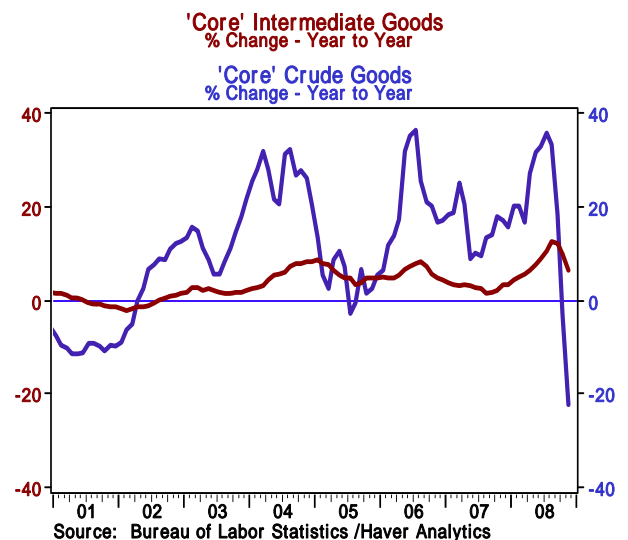
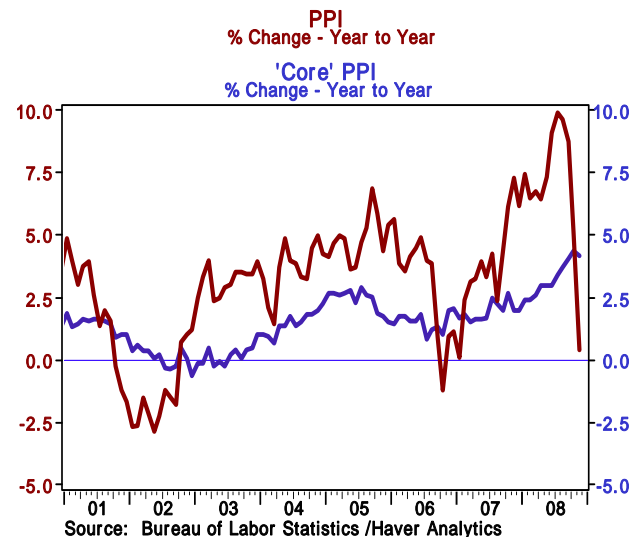


NOVEMBER PPI

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- The Producer Price Index (PPI) dropped 2.2% in November versus a consensus expected decline of 2.0%. The PPI is up 0.4% in the past twelve months.
- All the November drop in the PPI was attributable to energy, which fell 11.2%. The “core” PPI, which excludes food and energy, increased 0.1% in November and is up 4.2% versus last year, still nearly the most in twenty years.
- Consumer goods prices declined 2.9% in November and are down 0.6% versus last year. Capital equipment prices rose 0.1% in November and are up 3.7% versus a year ago.
- Intermediate goods prices fell 4.3% in November but are up 2.5% in the past year. Crude prices fell 12.5% in November and are down 19.2% versus last year.

Implications: Rapidly dropping energy prices have generated massive declines in producer prices in recent months, with finished, intermediate, and crude goods prices all down at a record pace in the past three months. Declines in broad commodity indexes are also bringing down prices for “core” intermediate and “core” crude goods. However, prices for core finished goods, which are less sensitive to commodities, remain in a rising trend, up at a 3.9% annual pace in the past three months. Also, prices for capital equipment are still rising, up at a 3.9% rate in the past three months versus 3.7% in the past year. These figures suggest the underlying problem with inflation that preceded the collapse in monetary velocity has not gone away. Once economic demand starts to recover headline inflation will move back up too. The monetary stimulus from the Federal Reserve will help revive the economy but needs to be withdrawn quickly as the economy recovers, in order to prevent a resurgent inflation problem.



Producer Price Index <i>All Data Seasonally Adjusted</i>	Nov-08	Oct-08	Sep-08	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr % Change
Finished Goods	-2.2%	-2.8%	-0.4%	-19.5%	-6.6%	0.4%
Ex Food and Energy	0.1%	0.4%	0.4%	3.9%	4.4%	4.2%
Food	0.0%	-0.2%	0.2%	0.0%	4.4%	6.8%
Energy	-11.2%	-12.8%	-2.9%	-68.0%	-39.2%	-16.1%
Consumer Goods	-2.9%	-3.7%	-0.6%	-25.4%	-9.7%	-0.6%
Capital Equipment	0.1%	0.5%	0.5%	3.9%	4.1%	3.7%
Intermediate Goods	-4.3%	-3.9%	-1.2%	-31.7%	-11.0%	2.5%
Ex Food & Energy	-2.3%	-1.7%	-0.3%	-16.0%	0.8%	6.4%
Energy	-12.3%	-10.6%	-3.8%	-67.7%	-42.7%	-11.9%
Crude Goods	-12.5%	-18.6%	-7.9%	-81.5%	-60.7%	-19.2%
Ex Food & Energy	-20.4%	-17.0%	-9.4%	-87.2%	-62.5%	-22.2%
Energy	-18.7%	-24.9%	-11.7%	-91.6%	-75.7%	-28.9%

Source: Bureau of Labor Statistics