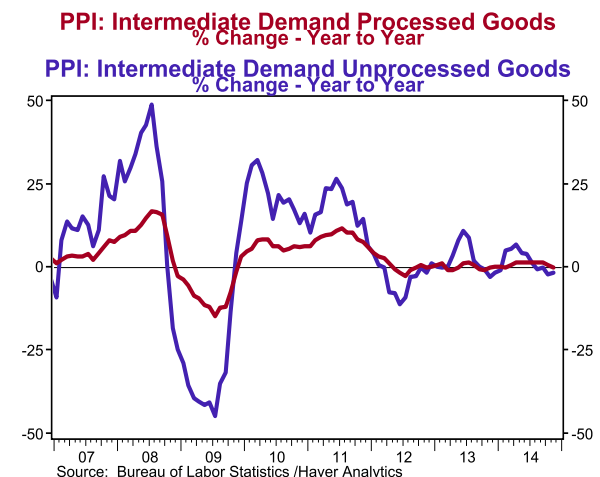
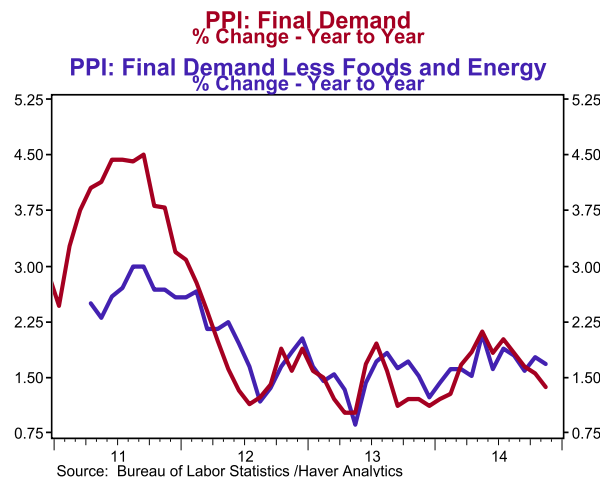


# November PPI

**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Economist

- The Producer Price Index (PPI) declined 0.2% in November, coming in below the consensus expected decline of 0.1%. Producer prices are up 1.4% versus a year ago.
- Energy and food prices led the index lower, down 3.1% and 0.2% respectively. Producer prices excluding food and energy were unchanged in November (-0.1% among just goods).
- In the past year, prices for services are up 1.9%, while prices for goods are up 0.4%. Private capital equipment prices rose 0.2% in November and are up 1.4% in the past year.
- Prices for intermediate processed goods declined 1.0% in November, and are down 0.3% versus a year ago. Prices for intermediate unprocessed goods fell 1.3% in November, and are down 1.7% versus a year ago.



**Implications:** Still no sign of inflation in producer prices. After a surprise to the upside in October, producer prices declined 0.2% in November coming in slightly lower than the consensus expected. The decline in overall producer prices was all due to the goods sector, where prices fell 0.7%, primarily due to energy. Energy prices fell 3.1% in November and are down 6.7% in the past three months (-24% at an annual rate), a testament to fracking and horizontal drilling. Although energy prices have dropped further in December and may decline into early 2015, that trend won't last forever. As a result, our forecast is that the US suffers neither hyperinflation nor deflation for the next few years. Instead, it's going to be a slow slog upward for inflation. Prices further back in the production pipeline (intermediate demand) show that it will take a while for inflation to move up. Prices for intermediate processed goods are down 0.3% in the past year while prices for unprocessed goods are down 1.7%. Regardless, with the labor market improving rapidly now that extended unemployment benefits are done, the Fed is still on track to start raising rates around the middle of next year. These rate hikes will not hurt the economy; monetary policy will still be loose and will likely remain that way for the first couple of years of higher short-term rates. Counterintuitively, higher short term rates may boost lending as potential borrowers hurry up their plans to avoid even higher interest rates further down the road. In other words, the Plow Horse economy won't stop when the Fed shifts gears.

<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Nov-14</b>	<b>Oct-14</b>	<b>Sep-14</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>	0.2%	-0.1%	-0.4%	0.5%	1.4%
<b>Goods</b>	<b>-0.7%</b>	-0.4%	-0.2%	-5.1%	-2.4%	0.4%
- Ex Food & Energy	<b>-0.1%</b>	-0.1%	0.2%	0.0%	0.5%	1.5%
<b>Services</b>	<b>0.1%</b>	0.5%	-0.1%	1.8%	2.0%	1.9%
<b>Private Capital Equipment</b>	<b>0.2%</b>	0.4%	0.3%	3.4%	1.1%	1.4%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>-1.0%</b>	-0.9%	0.1%	-7.3%	-3.3%	-0.3%
- Ex Food & Energy	<b>-0.5%</b>	-0.2%	0.2%	-1.6%	0.3%	1.0%
<b>Unprocessed Goods</b>	<b>-1.3%</b>	-2.4%	0.6%	-12.2%	-18.2%	-1.7%
- Ex Food & Energy	<b>-1.6%</b>	-2.9%	0.5%	-15.3%	-11.6%	-3.5%
<b>Services</b>	<b>0.3%</b>	0.1%	0.0%	1.5%	2.4%	1.6%

Source: Bureau of Labor Statistics

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.