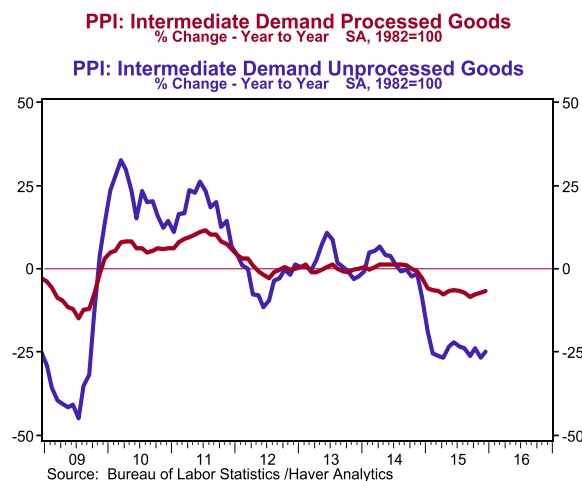
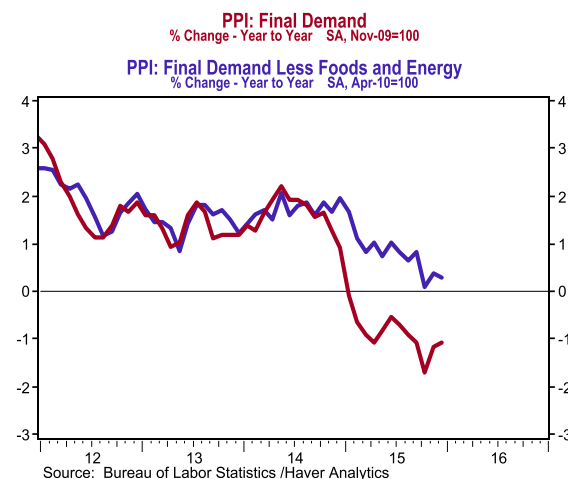


## December PPI

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- The Producer Price Index (PPI) declined 0.2% in December, matching consensus expectations. Producer prices are down 1.1% versus a year ago.
- The decline in producer prices in December was led by final demand goods, down 0.7%. Energy prices fell 3.4% in December while food prices declined 1.3%. Producer prices excluding food and energy rose 0.1%.
- In the past year, prices for goods are down 3.9%, while prices for services are up 0.4%. Private capital equipment prices rose 0.6% in December and are up 0.7% in the past year.
- Prices for intermediate processed goods declined 1.0% in December and are down 6.5% versus a year ago. Prices for intermediate unprocessed goods dropped 3.0% in December and are down 24.8% versus a year ago.

**Implications:** December's report on producer prices was an exclamation point on price trends in 2015. Energy prices once again led the decline, falling 3.4% in December and accounting for more than three-quarters of the headline decline. And echoing the trend we have seen across economic reports for much of the year, the goods and service sectors continue to tell two very different tales about the state of the U.S. economy. Goods prices fell 0.7% in December and are down 3.9% in the past year. This has been almost entirely due to energy prices, which are down 16.4% in the past year. Excluding just energy, goods prices declined a more modest 1.1% in 2015. If you were to look at only the goods sector, we can (sort of) understand concerns about the decline in prices over the past year. But when you take into account the much larger service sector, where prices are up 0.4% in the past twelve months even though transportation costs have dropped, it's clear to us, and the Fed, that once energy prices stabilize underlying inflationary pressures will reveal themselves. Add in a strong and steady labor market, and we think the Fed will stick to a modest pace of rate hikes in 2016. We expect a hike of 25 basis points at every other meeting starting in March. Core producer prices, which take out both the volatile food and energy components, increased 0.1% in December and are up 0.3% in the past year. In other words, inflation is extremely low, but the U.S. is not in a broad-based deflationary period, either. In other recent economic news, a strong dollar, falling petroleum prices, and cheap foreign goods are still pushing trade sector prices lower. Import prices declined 1.2% in December and are down 8.2% from a year ago. The drop is mostly from petroleum, but not all of it; import prices are down 3.7% from a year ago even excluding petroleum. Export prices declined 1.1% in December and are down 6.5% from a year ago.



<b>Producer Price Index</b> <i>All Data Seasonally Adjusted</i>	<b>Dec-15</b>	<b>Nov-15</b>	<b>Oct-15</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>	0.3%	-0.4%	-1.1%	-1.6%	-1.1%
<b>Goods</b>	<b>-0.7%</b>	-0.1%	-0.4%	-4.7%	-6.0%	-3.9%
- Ex Food & Energy	<b>0.1%</b>	-0.1%	-0.3%	-1.1%	-1.1%	0.1%
<b>Services</b>	<b>0.1%</b>	0.5%	-0.3%	1.1%	0.7%	0.4%
<b>Private Capital Equipment</b>	<b>0.6%</b>	0.1%	0.2%	3.4%	1.1%	0.7%
<b>Intermediate Demand</b>						
<b>Processed Goods</b>	<b>-1.0%</b>	-0.6%	-0.4%	-7.7%	-8.3%	-6.5%
- Ex Food & Energy	<b>-0.3%</b>	-0.4%	-0.2%	-3.4%	-3.8%	-3.6%
<b>Unprocessed Goods</b>	<b>-3.0%</b>	-5.1%	0.0%	-28.1%	-31.1%	-24.8%
- Ex Food & Energy	<b>-1.0%</b>	-3.4%	-1.3%	-20.9%	-21.7%	-18.4%
<b>Services</b>	<b>0.2%</b>	0.0%	-0.4%	-0.7%	-0.4%	0.5%

Source: Bureau of Labor Statistics