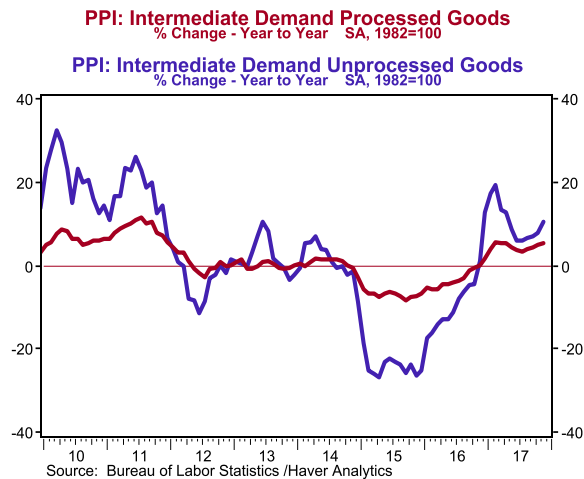
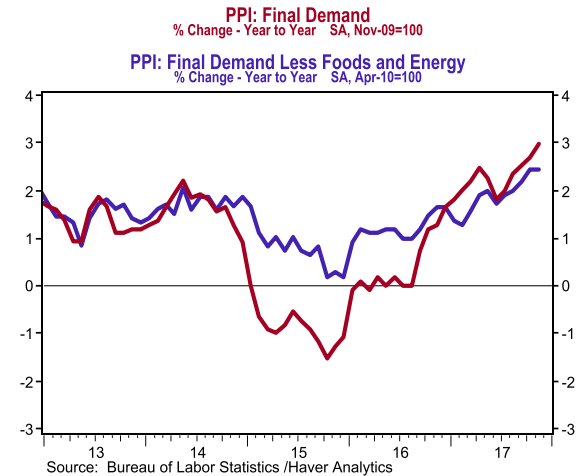


November PPI

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- The Producer Price Index (PPI) increased 0.4% in November, above the consensus expected rise of 0.3%. Producer prices are up 3.1% versus a year ago.
- Energy prices rose 4.6% in November, while food prices increased 0.3%. Producer prices excluding food and energy rose 0.3%.
- In the past year, prices for goods are up 4.2%, while prices for services are up 2.4%. Private capital equipment prices declined 0.2% in November but are up 2.3% in the past year.
- Prices for intermediate processed goods rose 0.5% in November and are up 5.3% versus a year ago. Prices for intermediate unprocessed goods increased 3.2% in November and are up 10.6% versus a year ago.

Implications: Producer prices continued their steady march higher in November and are up more than 3% in the past year, the largest twelve month increase since 2012. It's fitting that today's report on rising inflation comes as the Fed starts their December meeting, where a rate hike announcement now looks all but set in stone. Prices for goods led the way in November, rising 1.0% as gasoline prices surged 15.8%. Food prices also moved higher in November, rising 0.3% on increased costs for meats, fruits, and vegetables. But even stripping out the increases in the food and energy groupings shows "core" producer prices rose 0.3% in November and are up 2.4% in the past year. No matter how you cut it, it's clear inflation is on the rise. In fact, nearly every category in today's report shows inflation pressures that are likely to flow through to consumer prices in the months ahead. And a look further down the pipeline shows the trend higher should continue in the months to come. Intermediate processed goods rose 0.5% in November and are up 5.3% from a year ago, while unprocessed goods increased 3.2% in November and are up 10.6% in the past year. Given these figures, the real focus on tomorrow's Fed release will be on the survey of economic projections (the Fed "dot plots") to see if FOMC participants shift up their expectations for the number of rate hikes they expect in 2018. With employment growth remaining strong and inflation rising, we still expect three rate hikes in 2018, but believe the chance of a fourth rate hike is much higher than the likelihood we see just two as the markets are currently pricing in.



Producer Price Index	Nov-17	Oct-17	Sep-17	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>						
Final Demand	0.4%	0.4%	0.4%	5.4%	3.2%	3.1%
Goods	1.0%	0.3%	0.7%	8.2%	4.8%	4.2%
- Ex Food & Energy	0.3%	0.3%	0.3%	3.2%	2.0%	2.4%
Services	0.2%	0.5%	0.4%	4.3%	2.5%	2.4%
Private Capital Equipment	-0.2%	0.3%	0.4%	1.8%	2.0%	2.3%
Intermediate Demand						
Processed Goods	0.5%	1.0%	0.5%	8.5%	5.0%	5.3%
- Ex Food & Energy	0.3%	0.8%	0.2%	5.3%	2.9%	3.8%
Unprocessed Goods	3.2%	0.0%	-0.4%	11.8%	4.6%	10.6%
- Ex Food & Energy	0.8%	-3.7%	2.0%	-3.8%	3.5%	10.4%
Services	0.7%	0.3%	0.1%	4.2%	3.3%	3.2%

Source: Bureau of Labor Statistics