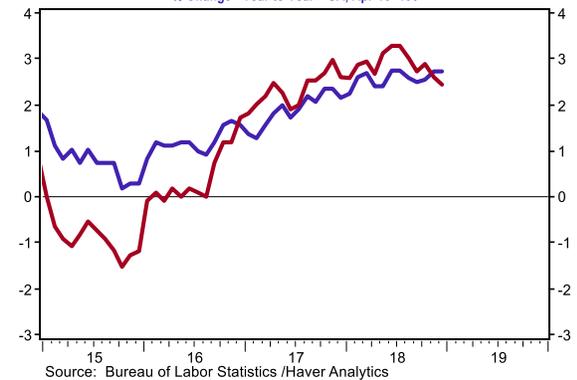


December PPI

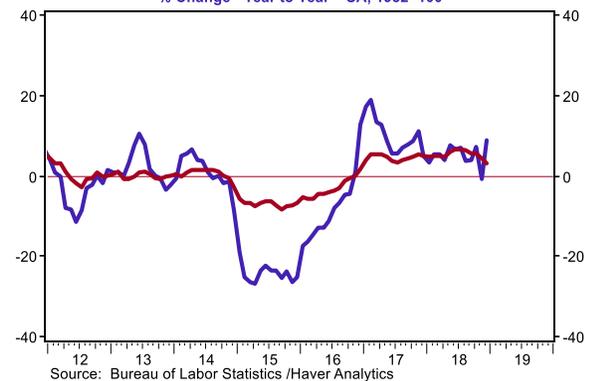
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- The Producer Price Index (PPI) declined 0.2% in December, coming in below the consensus expected decline 0.1%. Producer prices are up 2.5% versus a year ago.
- Energy prices fell 5.4% in December, while food prices increased 2.6%. Producer prices excluding food and energy declined 0.1% in December but are up 2.7% in the past year.
- In the past year, prices for goods are up 1.7%, while prices for services are up 2.8%. Private capital equipment prices rose 0.1% in December and are up 3.3% in the past year.
- Prices for intermediate processed goods fell 0.9% in December but are up 3.0% versus a year ago. Prices for intermediate unprocessed goods rose 11.2% in December and are up 9.1% versus a year ago.

PPI: Final Demand
 % Change - Year to Year SA, Nov-09=100
PPI: Final Demand Less Foods and Energy
 % Change - Year to Year SA, Apr-10=100



PPI: Intermediate Demand Processed Goods
 % Change - Year to Year SA, 1982=100
PPI: Intermediate Demand Unprocessed Goods
 % Change - Year to Year SA, 1982=100



Implications: Producer prices declined for just the second month in 2018, ending the year tied for the largest annual increase in prices since 2011. Strip out the ever-volatile energy category - which fell 5.4% in December and has declined 2.7% in the past year – and producer prices saw the largest annual increase since the switch to the new calculation method back in late 2009. Keep that in mind when the pouting pundits inevitably latch on to the December decline for an argument that the Fed should pause rate hikes. With prices up 2.5% in the past year (and a faster 2.7% “core”, which excludes food and energy prices), the Fed certainly has the data to support further hikes in the year ahead and will raise rates [so long as interest rates provide room](#). While energy was the primary reason for the December decline, the drop in prices was broad based. In addition to energy, prices for trade services (think wholesaler margins) fell 0.3% in December, and transportation & warehousing services fell 0.2%, offsetting a 2.6% jump in food prices. That said, the trend remains in place for inflation of around 2.5% in the year ahead, which would exactly match the readings for both 2017 and 2018. Higher inflation remains in the pipeline, with processed and unprocessed goods prices up 3.0% and 9.1% respectively over the past twelve months. And both the ISM Manufacturing and Non-Manufacturing indices remain comfortably in expansion territory, while the increasingly-tight labor market for qualified labor to both produce and transport goods should push wages - and general prices - higher in the year ahead. Note that private capital equipment prices rose 3.3% in 2018, an acceleration from the 2% gain in 2017 and faster than any calendar year since this data series started in 2011. This gain signals more business investment, which should help sustain economic growth at higher levels than the consensus expects. On the manufacturing front, the Empire State Index, which measures factory sentiment in the New York region, fell to 3.9 in January from 11.5 in December. Despite the drop, the index remains in expansionary territory, and the forward-looking components continue to show optimism for the year ahead. Those upset about the drop need to know that the index is now the lowest since May 2017. Remember a recession in mid-2017? Of course not. And there won't be one in 2019, either.

Producer Price Index <small>All Data Seasonally Adjusted Except for Yr to Yr</small>	Dec-18	Nov-18	Oct-18	3-mo % Ch. annualized	6-mo % Ch. annualized	Yr to Yr % Change
Final Demand	-0.2%	0.1%	0.6%	2.1%	1.2%	2.5%
Goods	-0.4%	-0.4%	0.6%	-1.0%	-0.7%	1.7%
- Ex Food & Energy	0.1%	0.3%	0.0%	1.7%	1.7%	2.5%
Services	-0.1%	0.3%	0.7%	3.5%	2.1%	2.8%
Private Capital Equipment	0.1%	0.0%	0.5%	2.5%	1.9%	3.3%
Intermediate Demand						
Processed Goods	-0.9%	-0.7%	0.8%	-3.1%	-1.3%	3.0%
- Ex Food & Energy	-0.7%	-0.2%	0.4%	-2.1%	0.6%	3.4%
Unprocessed Goods	11.2%	-5.3%	3.6%	42.0%	13.9%	9.1%
- Ex Food & Energy	1.5%	2.4%	0.0%	16.4%	-5.1%	3.1%
Services	0.1%	0.2%	0.4%	2.7%	2.9%	3.1%

Source: Bureau of Labor Statistics