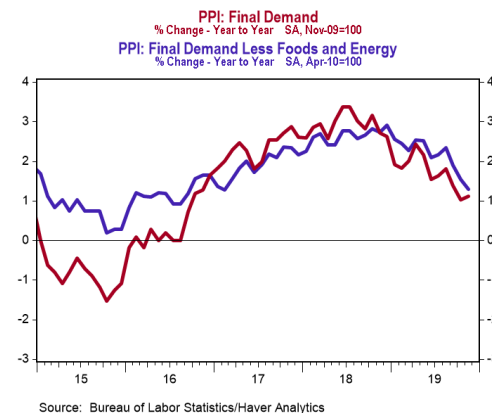


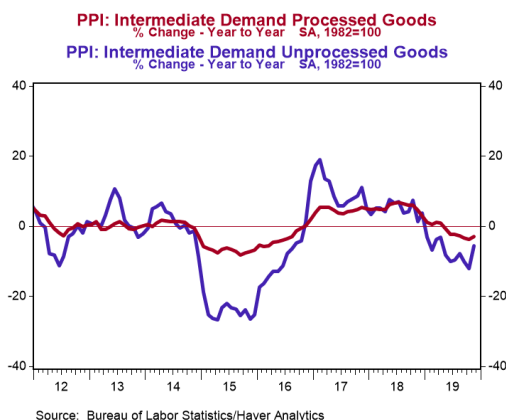
November PPI

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- The Producer Price Index (PPI) was unchanged in November, coming in below the consensus expected increase of 0.2%. Producer prices are up 1.1% versus a year ago.
- Food prices rose 1.1% in November, while energy prices rose 0.6%. Producer prices excluding food and energy declined 0.2% in November, but are up 1.3% in the past year.
- In the past year, prices for goods are up 0.2%, while prices for services have increased 1.4%. Private capital equipment prices declined 0.2% in November, but are up 0.9% in the past year.
- Prices for intermediate processed goods rose 0.2% in November, but are down 2.9% versus a year ago. Prices for intermediate unprocessed goods increased 3.9% in November, but are down 5.5% versus a year ago.



Implications: While yesterday’s report on consumer prices showed inflation accelerating, today’s print on producer prices shows an opposite picture. Producer prices were unchanged in November after a 0.4% increase in October. And the flat reading in November comes despite a 1.1% increase in food prices and a 0.6% rise in the cost of energy. Goods prices as a whole rose 0.3% in November, led by food, but most major goods categories moved higher. The rise in goods prices was offset by a decline in costs for services, which fell 0.3% in November, matching the largest monthly decline for that series since early 2015. Within services, margins for trade wholesalers fell 0.6%, led by a 5.0% drop in margins to food wholesalers. Strip out the typically volatile food and energy categories, and “core” prices declined 0.2% in November, while the 1.3% increase over the past twelve-months ties for the smallest year-to-year increase since late 2016. Despite the slowdown in prices in both headline and core over recent months, we expect the trend to return back towards 2% in the months ahead. Further down the pipeline, prices for intermediate demand processed goods rose 0.2%, while intermediate demand unprocessed goods saw prices increase 3.9%. Both intermediate demand categories continue to show prices broadly lower compared to year-ago levels, but rising at an annualized rate over the past three months. Some may point to today’s report as a sign that overly low inflation should still be a concern for the Fed, urging them to continue rate cuts in 2020, but we think that would be a mistake. Core consumer prices stand above 2% on a twelve-month basis, while core PCE prices (the Fed’s preferred measure) are up 1.6% in the past year. Paired with the very healthy employment market, these signal an economy with no need for Fed intervention. In employment news this morning, initial jobless claims rose 49,000 last week to 252,000, while continuing claims declined 31,000 to 1.667 million. The spike upward in initial claims is likely a reflection of seasonal volatility that frequently happens from Thanksgiving through MLK Day in January. Expect claims to move back down in the next couple of weeks. Plugging these data into our models suggests employment continued to grow at a solid pace in December, Nothing like the November blowout of 266,000, but at a pace strong enough to keep unemployment rates at 50-yr lows.



Producer Price Index <i>All Data Seasonally Adjusted Except for Yr to Yr</i>	Nov-19	Oct-19	Sep-19	3-mo % Ch. <i>annualized</i>	6-mo % Ch. <i>annualized</i>	Yr to Yr <i>% Change</i>
Final Demand	0.0%	0.4%	-0.3%	0.3%	0.3%	1.1%
Goods	0.3%	0.7%	-0.4%	2.5%	0.0%	0.2%
- Ex Food & Energy	0.2%	0.0%	-0.1%	0.3%	0.3%	0.5%
Services	-0.3%	0.3%	-0.2%	-0.7%	0.5%	1.4%
Private Capital Equipment	-0.2%	0.0%	-0.3%	-1.7%	-1.0%	0.9%
Intermediate Demand						
Processed Goods	0.2%	0.4%	-0.4%	1.0%	-2.3%	-2.9%
- Ex Food & Energy	-0.3%	0.1%	-0.3%	-2.0%	-2.2%	-2.4%
Unprocessed Goods	3.9%	1.0%	-1.4%	14.3%	-0.4%	-5.5%
- Ex Food & Energy	0.3%	-1.3%	-1.6%	-10.2%	-3.7%	-6.8%
Services	-0.1%	-0.2%	0.1%	-0.7%	0.3%	1.4%

Source: Bureau of Labor Statistics