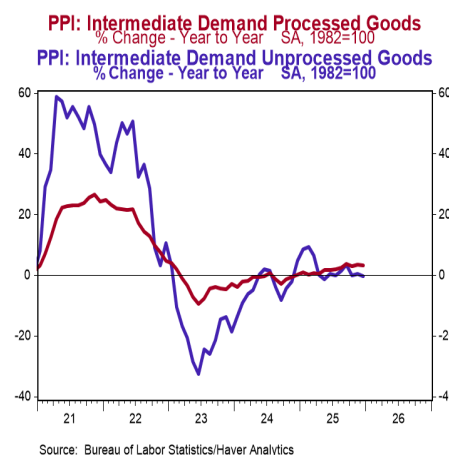
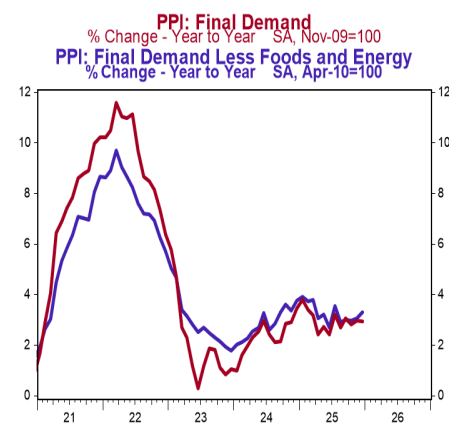


December PPI

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- The Producer Price Index (PPI) rose 0.5% in December, coming in above the consensus expected +0.2%. Producer prices are up 3.0% versus a year ago.
- Energy prices fell 1.4% in December, while food prices declined 0.3%. Producer prices excluding food and energy rose 0.7% in December and are up 3.3% versus a year ago.
- In the past year, prices for goods are up 2.5%, while prices for services have increased 3.2%. Private capital equipment prices rose 1.0% in December and are up 3.0% in the past year.
- Prices for intermediate processed goods declined 0.1% in December but are up 3.4% versus a year ago. Prices for intermediate unprocessed goods rose 2.3% in December but are down 0.3% versus a year ago.

Implications: The key to producer prices is to watch the trend, not one-off volatile readings. Producer prices ended 2025 by rising 0.5% in December, despite falling prices from the typically volatile food and energy categories. But even with the outsized monthly reading, producer prices rose 3.0% in the twelve months ending December, which is an improvement from the 3.5% inflation of 2024. A look at the details shows the December jump was concentrated and unlikely to continue in the months ahead. Over forty percent of the increase came from a rise in margins for machinery and equipment wholesaling, which rose 4.5%. As a result, prices for the broader services category rose 0.7% in December and ended the year up 3.2%. Many likely assumed it would be goods prices that would lead inflation higher in 2025, given the higher tariff rates implemented under President Trump, but goods prices were unchanged in December and rose a more modest 2.5% in 2025. It should be noted the December goods reading was muted by the abovementioned declining prices for energy (-1.4%) and food (-0.3%). “Core” producer prices – which excludes those typically volatile categories — rose 0.7% in December, the second largest month increase since mid-2022. We don’t expect the wholesale margins that pushed December producer prices higher will sustain in the months ahead. In fact, following each of the four prior times in 2025 where margins rose by more than 1.0% in a month (this too is a volatile category), it was followed by a decline in the month that followed. Again, watch the trend, not one-off readings. Sustained movements in overall inflation are led by the money supply, which is up only 3.0% since April 2022. Volatility may continue month-to-month, but we expect this monetary tightness will keep inflation relatively subdued, leaving room for rate cuts to continue at some point later in 2026, most likely after Powell is replaced. President Trump announced this morning he intends to nominate former Fed Governor Kevin Warsh. In other news this morning, the Chicago Purchasing Managers Index (PMI) – where readings above 50 signal growth – surged to 54.0 in January from 42.7 in December, signaling a notable pickup in activity.



Producer Price Index	Dec-25	Nov-25	Oct-25	3-mo % Ch.	6-mo % Ch.	Yr to Yr
<i>All Data Seasonally Adjusted Except for Yr to Yr</i>				<i>annualized</i>	<i>annualized</i>	<i>% Change</i>
Final Demand	0.5%	0.2%	0.1%	3.3%	4.2%	3.0%
Goods	0.0%	0.8%	-0.4%	1.3%	3.9%	2.5%
- Ex Food & Energy	0.4%	0.2%	0.5%	4.4%	4.1%	3.7%
Services	0.7%	0.0%	0.3%	4.1%	4.4%	3.2%
Private Capital Equipment	1.0%	0.1%	-0.3%	3.6%	3.5%	3.0%
Intermediate Demand						
Processed Goods	-0.1%	0.5%	-0.3%	0.6%	3.4%	3.4%
- Ex Food & Energy	0.7%	0.1%	0.2%	3.8%	4.0%	3.8%
Unprocessed Goods	2.3%	0.5%	-1.3%	6.0%	2.6%	-0.3%
- Ex Food & Energy	2.6%	1.1%	3.4%	32.0%	20.9%	14.6%
Services	0.7%	0.1%	0.3%	4.5%	4.5%	2.7%

Source: Bureau of Labor Statistics