



Economics Group

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Producer Prices Unexpectedly Soften in December

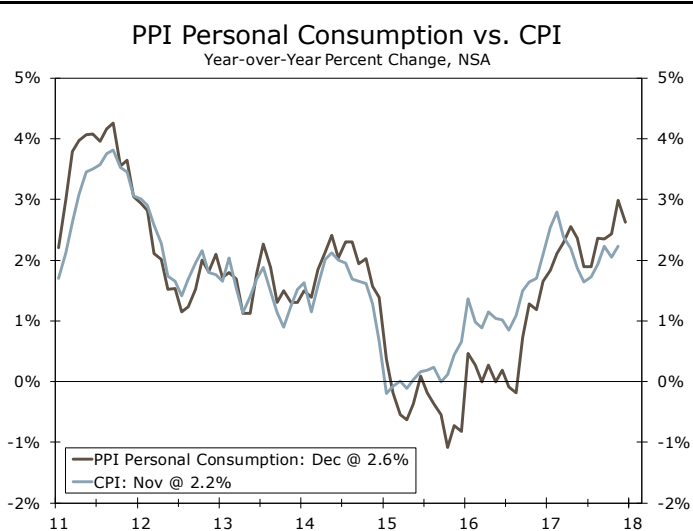
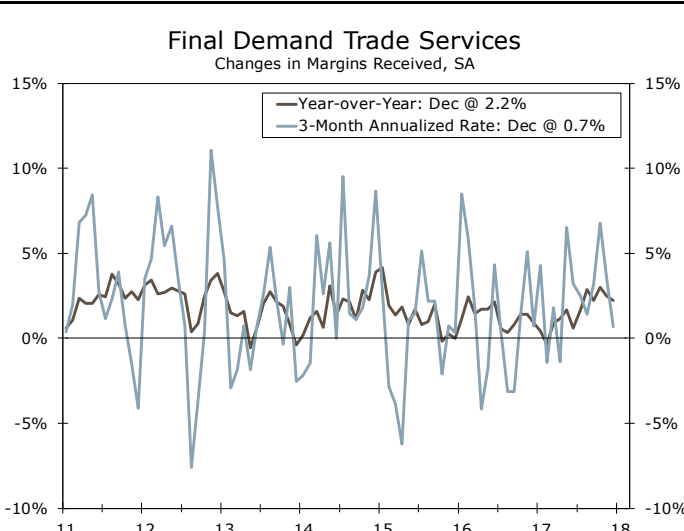
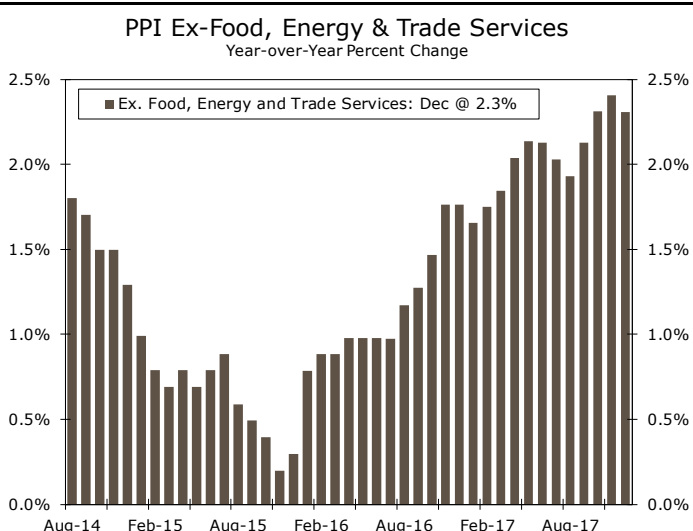
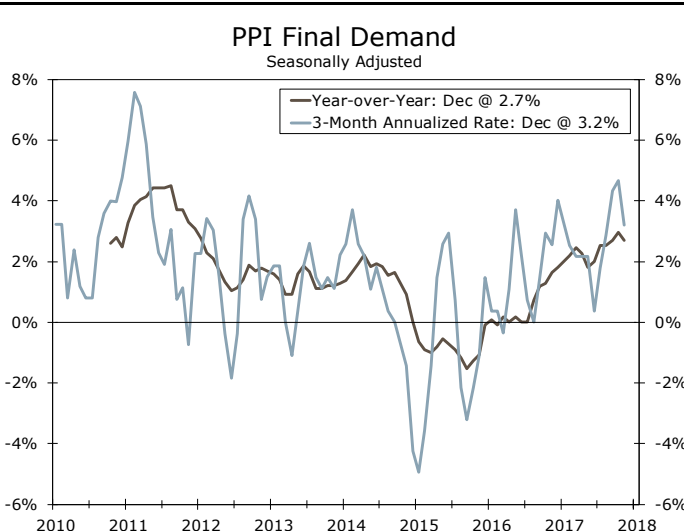
The Producer Price Index (PPI) for final demand unexpectedly declined 0.1 percent in December, primarily on lower service prices. Excluding food, energy and trade services, the PPI remains firm near the series high.

Services Prices Decline for the First Time in 10 Months

- Breaking a four-month string of above trend gains, headline producer prices unexpectedly contracted in December—the first monthly decline since August 2016. Headline PPI inflation is up 2.6 percent from a year ago, above the 1.7 percent pace in 2016.
- A 0.6 percent drop in trade services prices was the primary responsible component for the headline’s decline. Food prices fell 0.7 percent, while energy prices remained unchanged.

Pressures Anticipated to Firm Further in 2018

- Our favorite core measure, excluding food, energy and trade services, recorded a small monthly gain, rising 0.1 percent and 2.3 percent over the past year.
- The start of the New Year is historically a time when firms test pricing power. With the economy on an upswing and commodity prices continuing to rise, the upward momentum exhibited with producer prices during 2017 should continue in early 2018.



Source: U.S. Department of Labor and Wells Fargo Securities

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