

U.S. Data Review

- PPI: decelerating, but still problematic

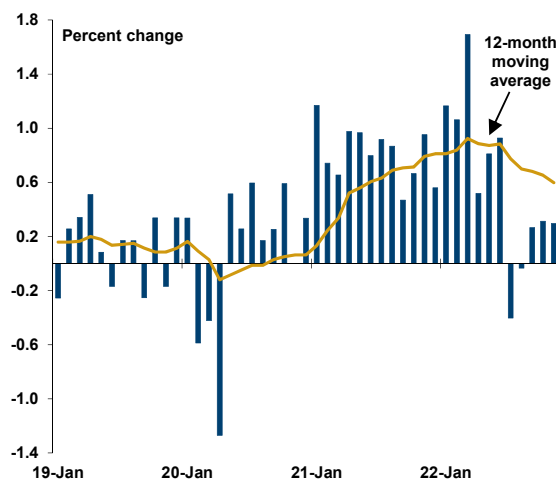
Michael Moran
Lawrence Werther

Daiwa Capital Markets America
 michael.moran@us.daiwacm.com
 lawrence.werther@us.daiwacm.com

Producer Price Index

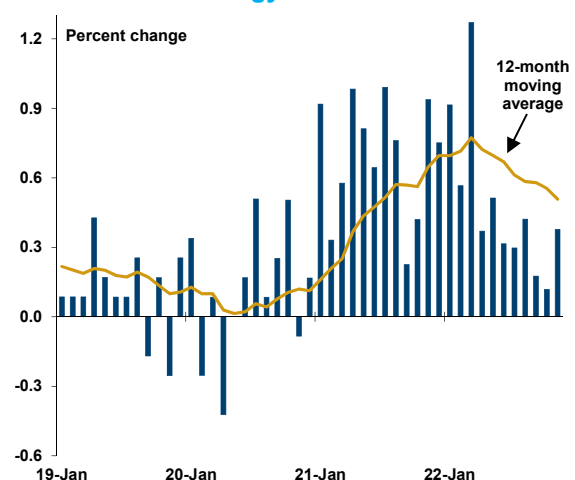
- The producer price index rose 0.3 percent in November, while prices excluding food and energy rose 0.4 percent (charts). Both were much slower than the torrid advances last year and early this year, but they were firmer than expected and were constrained to a degree by items that might be viewed as special factors.
- The increase excluding food and energy contained several unfavorable elements. Prices of consumer goods excluding food and energy jumped 0.6 percent; the latest advance was slower than the average of 0.8 percent in the first half of 2022, but notably firmer than readings of 0.2 and 0.3 percent in October and September. Similarly, service prices showed a hint of easing in September and October (up 0.2 and 0.1 percent), but they picked up to 0.4 percent in November. Capital goods prices also stirred to a degree (up 0.4 percent in November versus 0.3 percent in September and October).
- Some areas that showed restraint should be interpreted cautiously. Prices of goods destined for export were flat in November after averaging declines of 0.5 percent in the July to October period. These soft readings most likely reflect exporters cutting prices to remain competitive in foreign markets amid challenges from a strong dollar (thus, no effect on domestic inflation). Construction prices also should be interpreted cautiously, as these often surge in the first month of a quarter followed by soft readings in the next two months (an obvious glitch in seasonal adjustment). The increase of 0.1 percent in November hardly signals restraint after a surge of 2.8 percent in October.
- We viewed today's report as disappointing. The PPI for September and October suggested notable easing in price pressure, but today's report signaled that problems remain. The increase in food prices was shocking, and the jump of 0.6 percent in consumer goods excluding food and energy was troubling. The increase of 0.3 percent in the headline would have been larger were it not for the flat reading on export prices and the seasonal anomaly in the construction sector.

Headline PPI



Source: Bureau of Labor Statistics via Haver Analytics

PPI Ex. Food & Energy



Source: Bureau of Labor Statistics via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. brokerdealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.