

PPI Inflation Eased in May 2024, Down 0.25% versus April (seasonally adjusted)

- **Topline PPI fell by 0.25% on a seasonally adjusted basis in May 2024**
- **Core PPI, less Food & Energy, was up only marginally in May 2024 at +0.05%**
- **Services PPI was flat for the month in May 2024 while Goods PPI fell for the sixth time in eight months**
- **Producers' Energy prices declined by 4.8% in May 2024, resetting costs to near July 2023 levels**

The Producer Price Index (PPI) was down by 0.25% on a seasonally adjusted basis in May 2024 versus April. This represents a 2.2% year-over-year gain, which itself is weaker than April +2.3% pace. Core PPI inflation, which excludes volatile costs for food and energy prices, also eased on a year-over-year basis to +2.3% versus +2.5% in April. Concerns over recent months' producer price increases should be somewhat alleviated by the May PPI result as it undermines what might have been building momentum in supply-side price pressures and is built upon a drop in producers' all-important energy costs.

Prices in Final Demand for Goods producers retreated back into negative territory in May 2024, posting a sizeable decline of 0.8% for the month. This is the largest monthly drop since October 2023 (-1.2%) and follows a couple of sharp bounces in the Goods category in February and April of this year. Consumer spending on both Durable Goods and Nondurable Goods declined in the first quarter of 2024, according to the Bureau of Economic Analysis' GDP report, after both had overtaken growth in Services spending during the second half of 2023. Weaker consumer demand for goods coupled with a lack of traction in producers' own cost pressures will help consumer price inflation continue to ease through the rest of this year.

Energy PPI declined by a massive 4.8% in May 2024. This move resets producers' energy costs almost all the way back to the post-pandemic lows of mid-2023. Highlighting the delay that energy prices have in reaching consumers, the Transportation & Warehousing Services Intermediate Demand PPI category was one of the few components that saw increases in May 2024, having risen at a 3.5% annualized pace for the month. This follows a 7.1% annualized gain in April. Energy-heavy Transportation & Warehousing operations are still realizing the effects of significant Energy PPI monthly gains in February and April (+3.9% and +2.0%, respectively) in this latest report. And this implies some downstream price pressures still to come for consumers as these costs are passed further through the supply chain. But similarly, May 2024's Energy PPI drop implies that the second half of 2024 will eventually see diminishing cost pressures from producers' own energy bills, potentially bringing the Fed's 2% consumer inflation goal into sight by year's end.

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This week's CPI report was an unmitigated win for inflation watchers. Both Topline and Core CPI came in below expectations and provided some hope that inflation's stalled trend might resume its downward trajectory in the months to come. Producer costs will have to demonstrate stability in the coming months as well if that goal is to be achieved, as both producers will inevitably pass their own costs onto consumers. The May 2024 PPI report does not cement that stability as yet, but it is a step in the right direction after supply-side price pressures had spent most of 2024 threatening to undermine progress toward the Fed's inflation taming goals. PNC forecasts two (2) 25 basis point rate cuts by the Fed, in November and December of this year, aligning with the assumption that this week's PPI and CPI reports represent renewed easing in price pressures across the U.S. economy.

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