Economic Update

December 12, 2024

PPI Inflation Accelerated in November 2024 to +0.4%; Strongest Pace Since June, Led by Goods Prices

- **Final Demand PPI rose by 0.4% on a seasonally adjusted basis in November 2024**
- **Producers' Energy prices saw a second consecutive monthly gain, rising by 0.2% for the month**
- **Core PPI, less Food & Energy, eased modestly to a 0.2% gain in November 2024**
- **November 2024 saw Goods PPI growth post its strongest monthly gain since February at +0.7%**

The Producer Price Index (PPI) was up by 0.4% on a seasonally adjusted basis in November 2024. This compares to October's +0.3% rise in Final Demand prices and represents a year-over-year gain that has now risen to +3.0%. Goods producers' costs were largely responsible for November's overall pace of PPI inflation as Services price gains decelerated for third consecutive month. Energy costs also rose in November, but given large declines through the middle of 2024 this component of overall PPI index is still down 6.2% for the year.

The PPI Final Demand for Goods category revealed that producers' costs rose sharply, up by 0.7% in November 2024. After being flat to down throughout the second and third quarters, growth in goods producers' costs in November posted their strongest rise since September 2023 and their second consecutive monthly gain. Services prices had dominated the inflation debate for most of the year as consumer demand had waned. With wage growth having made significant progress this year toward rebalancing purchasing power on aggregate since the pandemic, consumer demand for higher-priced goods may be on the rebound entering 2025, lifting producers' ability to pass on their own rising costs if recent trends hold.

The recent trend in Services PPI gains demonstrates the pitfalls of relying upon often-cited year-over-year growth numbers for inflation. Services PPI growth accelerated to a 3.9% pace versus one year ago. However, the monthly trend has been *decelerating* mid-year. Significant single-month gains sprinkled through the first half of 2024 pushed service providers' costs higher, but the pace of gains leveled off through the third and now the fourth quarter. Annualized monthly Services PPI growth has fallen from 8.9% in June to 2.9% in November's report. These more recent numbers are a more pertinent indicator of how inflationary conditions sit now and what consumers can expect in the way of passed-through costs in the months to come, and the trend is clearly in a much better direction with respect to pricing pressures entering the new year.

Energy PPI has demonstrated significant volatility over the past year. November 2024 saw a monthly gain in Energy PPI of 0.2%, following October's 0.1% rise. But this mini-run to the upside follows much larger monthly

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declines in four out of the five preceding months. Oil prices (West Texas Intermediate) have not deviated significantly from the $70 mark for most of 2024, despite ongoing and evolving conflict in the Middle East. Combining the impact of relative oil price stability with expressed support for U.S. domestic production from the incoming Trump administration should mean little risk of Energy PPI sparking a new round of upward inflationary pressure for producers in 2025.

Recent revisions from the Bureau of Labor Statistics suggest that businesses' labor costs are not rising as sharply as was previously estimated. With the Federal Reserve set to lower rates further – by 25 basis points in December and then another 50 basis points combined in 2025, according to PNC forecasts – businesses' overall costs will be under even less pressure in the coming year than the still-mild inflation trends that prevailed for producers in 2024. Businesses may be faced with a complicated trade environment as a result of tariffs that have been threatened by the Trump administration but marketplace supply & demand fundamentals underlying PPI, and therefore consumer price inflation, are stable and even point to a lower risk environment in the months to come. It appears that only an exogenous shock such as dramatic tariff policy shifts would be capable of derailing supply-side contributions toward inflation's return to the Federal Reserve's 2.0% average goal in the near term.

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