Economic Update

January 14, 2025

PPI Inflation Decelerated to 0.2% in December 2024, Up 3.3% for the Full Year

- **Final Demand PPI rose by 0.2% on a seasonally adjusted basis in December 2024**
- **Producers' Energy prices jumped sharply in December 2024, rising by 3.5% for the month**
- **Core PPI, less Food & Energy, was unchanged December 2024, posting only a 0.04% gain**
- **Goods PPI gained 0.6% in December 2024 while Services PPI was virtually flat at 0.04%**

The Producer Price Index (PPI) was up by 0.2% on a seasonally adjusted basis in December 2024. While the index's monthly gain decelerated from November's 0.4% increase – its largest since June 2024 – the trend in Producer Prices were up by 3.3% versus one year ago. Goods producers' costs are clearly taking back the spotlight from services providers where costs are concerned, and Energy costs are flashing warning signs for all businesses.

The PPI Final Demand for Goods category posted a second consecutive monthly spike, rising by 0.6% in December 2024 following November's 0.6% jump. Goods producers' costs had been flat to down throughout the second and third quarters of 2024 and have not seen consecutive monthly gains of this magnitude since August & September of 2023 (+1.7%; +0.9%). Goods PPI gained 1.8% for the full year in 2024 on the back of this late-year surge. 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.

December's PPI report reiterated the pitfalls of relying upon often-cited year-over-year growth numbers for inflation. Services PPI growth finished the year at a 4.0% pace on a year-ago. However, the monthly trend *decelerated* further in December, falling to a mere +0.04% gain following +0.3% rises in both of the two months' prior. The bottom line is that the U.S. economy's price pressures appear to be shifting from the services sector back to manufacturing after service providers' costs had been unshakeable through most of 2024. Consumers can therefore expect to see their services expenditures prices stabilize entering the new year, certainly more readily than on big(ger) ticket goods purchases.

Energy PPI closed 2024 on a worrisome note. December's PPI report showed Energy costs for businesses rose by 3.5% for the month. And although Energy costs posted a -2.0% change versus one year ago, that December result compares to September's mark of a -14.2% year-over-year change. Oil prices have also suddenly gathered upward momentum, rising closer to $80 per barrel (West Texas Intermediate) after spending months hovering around the $70 mark despite ongoing and evolving conflict in the Middle East. Higher oil prices to open the new year will surely result in higher costs for businesses across all industries, and will eventually feed into the costs that consumers see on shelves.

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PNC is forecasting that the Federal Reserve will lower rates further by 50 basis points total in 2025. Businesses may be faced with a complicated trade environment as a result of tariffs that have been threatened by the incoming Trump administration, which now look to add to pressure appearing on the manufacturing side of the U.S. economy. Service providers' costs, though, are stabilizing entering the new year. More than two-thirds of U.S. domestic consumption flows to the services side of the economy. One broader point to consider if tariffs do yield the exogenous shock to prices that is being threatened is that consumers may simply shift more of their spending to services, which are by and large provided by local and small businesses. Those businesses will not be immune to any newfound Energy price pressures or continued wage gains, but the potential shift in demand could act as support for jobs within such industries. Such a turn would then help businesses deal with their shifting cost dynamics as the new year progresses.

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