Economic Update

PNC

October 11, 2024

PPI Inflation Offers Pressure Relief with a Mere 0.05% Gain for September 2024

- **Final Demand PPI rose by 0.05% on a seasonally adjusted basis in September 2024**
- **Producers' Energy prices saw a second consecutive month of relief, falling by 2.7% in September 2024 versus August|**
- **Core PPI, less Food & Energy, rose by 0.16% in September 2024 – extending a downward trend from April 2024's peak growth pace**
- **Both Services and Goods PPI growth weakened in September 2024, with Goods PPI inflation falling back into outright decline**

The Producer Price Index (PPI) was up by only 0.05% on a seasonally adjusted basis in September 2024. This compares to August's jump to +0.2% after a flat July result. Cutting through recent months' volatility in Final Demand PPI reveals a 3-month average annualized pace of 1.3% for this topline measure of businesses' costs. With the Federal Reserve now firmly set on a path of monetary easing and renewed reaction – perhaps overly so – to the September consumer price inflation and employment situation reports, an apparent easing of upstream producer price trends is welcome news.

The PPI Final Demand for Goods category revealed that producers' costs fell by 0.2% in September 2024. Growth in goods producers' costs have settled back into a benign state after jumping sharply to open the third quarter of 2024 (+0.6% in July 2024). As with the topline numbers, though, some perspective looking through recent price growth volatility is useful. Goods producers have seen price growth that mirrors topline Final Demand PPI gains at 1.3% on a three-month annualized basis since June 2024. Looking further back through the year to date, Goods PPI has actually posted a -0.9% pace on a six-month annualized basis. A slowing trend in consumer spending has been in place since mid-2023, including a few months' worth of outright declines in retail sales. And with no evidence that households are switching back to goods-oriented spending from a preference for services & experiences, weakness in goods production costs offers a salve to manufacturers that might be lacking pricing power.

Services PPI gains eased in September 2024, posting a +2.0% annualized pace for the month. Although some headlines will likely discuss the acceleration to a +3.1% year-over-year gain in this large and influential inflation category – up from +2.9% in August – the current and recent months' trends reflected in the annualized number are more relevant to where price growth is headed in the next few months than how conditions sit versus a year ago. Annualized monthly growth in Services PPI re-accelerated to 7%+ in April and June of this year. Given that services industry wage growth continues to settle down, similar spikes look unlikely and service providers' cost pressures from the first half of this year should be cleared from the prices pipeline and allow overall inflation to continuing its trek towards the Fed's goal of 2% entering the new year.

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Energy PPI posted a second consecutive month of declines in September 2024, falling by 2.7% for the month. This translates to producer energy prices now being 14% below year-ago levels, defying the risks presented by turmoil in oil producing nations of the Middle East. Again following the progression of cost pressures from their source, with energy costs influencing the entire economic ecosystem, the cost pressure relief offered by weaker Energy PPI is evident through the transportation and warehousing sector. PPI for both intermediate and final demand for transportation and warehousing services post 0.3% gains in September 2024, following declines in both categories in August after sharp spikes in July.

There is no segment of the supply chain where cost pressures appear to be building, which would inevitably see pass-through to consumers. The pace of monetary policy easing in the way of interest rate cuts from the Fed will have influence over this condition in the months to come, however. A measured approach to cutting rates is therefore appropriate in order to avoid sparking renewed inflation from the top down. Aggressive easing would risk spiking consumer demand just as it is settling into a sustainable pace. This result would in turn put pressure on businesses to meet that demand, re-igniting gains in those businesses' own costs as they jockey for the necessary resources to do so.

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