

Final Demand Producer Prices Meet Expectations in October

- Final demand producer prices increased 0.2% month-on-month in October, up from 0.1% in September but spot on with the consensus forecast. Final demand producer prices are up 2.4% year-on-year (not seasonally adjusted), the fastest pace of growth since July.
- The monthly increase was primarily driven by a 0.3% jump in final demand services prices; final demand goods prices rose a more modest 0.1%.
- Intermediate producer prices for processed goods rebounded 0.5% after falling 0.8% in September, while intermediate prices for unprocessed goods jumped 4.1% and intermediate prices for services edged up 0.1%.
- PNC expects the Federal Open Market Committee to cut the fed funds rate by 25 basis points in December with four additional 25 basis points cuts in the first half of next year, lowering the fed funds rate to a range of 3.25-3.50%.

The final demand producer price index (PPI) rose a seasonally adjusted 0.2% in October, in line with the consensus forecast and up from 0.1% in September. The increase was broad-based and was led by a 0.3% jump in final demand services prices, a slight acceleration from 0.2% in September. Over one-third of the increase in services prices was due to a 3.6% increase in portfolio management, although prices for machinery and vehicle wholesaling, airline passenger services, computer hardware, software, supplies retailing, outpatient care, and cable and satellite subscriber services also rose. In contrast, margins for apparel, footwear, and accessories retailing plunged 3.7%, while prices for securities brokerage, dealing, investment advice and truck transportation of freight also declined.

Final demand goods prices inched up a more modest 0.1% in October on the heels of two consecutive declines. An 8.4% surge in the index for carbon steel scrap was a major factor in the advance in prices for final demand goods. Prices for meats, diesel fuel, fresh and dry vegetables and oilseeds also moved higher. Conversely, prices for liquefied petroleum gas fell 18.1% and prices for eggs, processed poultry and ethanol also decreased.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

The modest 0.2% month-on-month increase pushed the final demand year ago growth rate up to 2.4% (not seasonally adjusted), up from 1.9% and the fastest pace of growth since July (also 2.4%). Final demand producer prices excluding food and energy climbed 0.3% in October, up from 0.2% in September. Producer prices less food and energy are 3.1% higher than a year ago, a modest uptick from 3.0% in September. Core producer prices, which exclude food, energy and trade services, climbed 0.3%. Compared to a year earlier, core producer prices are up 3.5% in October, a modest uptick from 3.3% in September. Intermediate producer prices for processed goods rebounded 0.5% after falling 0.8% in September, while intermediate prices for unprocessed goods jumped 4.1% (up sharply from the 1.8% decline in September) and intermediate prices for services edged up 0.1%, unchanged from September.

PNC Economics

economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.