Economic Update

February 13, 2025

PPI Inflation Comes in Hot for January 2025, Up 3.5% for the Full Year

- **Final Demand PPI rose by 0.4% on a seasonally adjusted basis in January 2025**
- **Producers' Energy prices rose sharply in January 2025, gaining 1.7% for the month**
- **Goods PPI continued its renewed upward march with a 0.6% gain in January 2025**
- **Final Demand for Transportation and Warehousing Services eased to open the new year, but remains up by 3.6% versus one year ago**

The Producer Price Index (PPI) was up by 0.4% on a seasonally adjusted basis in January 2025. The monthly gain decelerated from December's revised 0.5% increase but remains elevated from the pace of growth in costs that businesses were seeing through much of the second half of 2024. Goods producers' costs are clearly taking back the spotlight from services providers, and Energy costs remain a concern for all businesses.

The PPI Final Demand for Goods category has now established a trend of higher price growth after rising by 0.6% in January 2025. This result is the third consecutive month of accelerating price growth for goods producers at or above a 0.5% monthly pace. This translates to a 2.4% year-over-year pace, which stands in stark contrast to the pace at which goods producers had seen their costs rising through the past two years. January's 2.4% gain versus one year ago is the strongest pace seen since February 2023 (+5.3%). 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.

Services PPI growth eased in January 2025, rising by 0.3% versus the prior month. This compares with December's +0.5% gain. Whereas goods producers are seeing an accelerating trend in their input costs, service providers are facing weaker price increases. This shift in price pressures from goods to services will intensify the spotlight on interest rates as households' purchases of goods are more likely to be made using borrowed money – be it loans for bigger ticket items or credit cards. Retail sales growth has accelerated since the middle of 2024 while the savings rate among households has declined. Households clearly enter 2025 in a renewed spending mood, potentially providing further support toward producers' capacity to raise prices as their own costs rise.

Energy PPI posted a second consecutive sharp gain in January 2025, rising by 1.7% for the month following December's 2.2% jump. Energy costs are now up versus one year ago (+0.4%), which compares to September's mark of a -13.7% year-over-year change. Oil prices have eased from a dramatic rise to open the

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new year, however, which provides some hope that near-term energy price cost increases will not become entrenched in businesses mid- to longer-term cost planning for the year.

PNC is forecasting that the Federal Reserve will lower rates by 50 basis points total in 2025. The January 2025 PPI report does give pause to rate cut expectations, however, as higher business costs are likely to translate into upward pressure on consumer prices in the months to come. Thus, consumer price inflation measures will be less likely to make further progress toward the Federal Reserve's target of an average of 2%. In addition to uncertainty regarding interest rates, businesses are faced with the task of planning in a complicated trade environment. Tariffs continue to be threatened by the Trump administration, which would raise costs for businesses across the board. One broader point to consider if tariffs do yield the exogenous shock to prices that has been 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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