Economic Update

May 14, 2024

PPI Inflation Exceeded Expectations in April 2024, Up 0.5% (Seasonally Adjusted)

- **Topline PPI gained 0.5% on a seasonally adjusted basis in April 2024**
- **Core PPI, less Food & Energy, also gained 0.5% gain for April 2024**
- **Both Goods and Services PPI bounced in April 2024 after declines in the month prior**
- **Producers' Energy costs rose 2.0% for the month in April 2024, setting the index value back above October 2023 levels**

Producer Price Index (PPI) inflation jumped by 0.5% in April 2024 on a seasonally adjusted basis (+0.6% non-seasonally adjusted). Year-over-year PPI inflation has now accelerated from +0.8% in November 2023 to +2.2% as energy prices have jumped and goods producers costs have reasserted an upward trend. Core PPI inflation, which excludes volatile costs for food and energy prices, was also up by 0.5% in April 2024, and is now +2.4% versus one year ago.

An upward trend in producers' costs looks to be firmly in place with topline PPI rising in three of the first four months of 2024 thus far. These PPI inflation results has outpaced expectations in each case. Household spending remains a contributor to consumer price inflation from the demand side, but that pressure is now joined by businesses having their own costs to pass on to consumers after an absence of such pressure throughout 2023. With upward price pressure coming from both sides of the supply/demand equation, the FOMC has virtually no standing to entertain rate cuts this summer. PNC is now forecasting two Fed Funds rate cuts through the end of 2024 – the first in September followed by a second 25 basis point cut in December.

Both Goods and Services PPI bounced back in April 2024 after each component index declined in March. Goods PPI was up by 0.4% in April, while Services PPI jumped by 0.6% for the month. These monthly gains represent year-over-year increases of +1.3% and +2.7%, respectively. On the Goods PPI front, April 2024's was the strongest gain versus one year ago since March 2023. Services PPI has hovered in the above 2% throughout that time as well, but April's +2.7% number was nonetheless the strongest seen in that category since July 2023. The upshot is that no sector of the U.S. economy has been able to dodge rising costs through the first four months of the year. Consumer price inflation has already stalled in its own downward trajectory, and looks set to incorporate the pass-through of businesses' own rising costs through the summer months.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

Energy costs were a strong contributor to the topline PPI result in April 2024, rising sharply for the second month out of the last three at +2.0%. Although Energy PPI is up only 1.0% versus one year ago, this number might easily be misinterpreted as relatively benign as a result of declines from October 2023 through January 2024. The Energy PPI component index has now given back all of the declines seen during that period, rising to 144.6 in April as compared to 144.1 in October 2023. OPEC+ agreed in March 2024 to extend “voluntary output cuts” after the downward trend in prices in the months prior. So oil prices look to remain elevated – if not from demand then certainly as a result of oil exporting nations’ interest in defending price levels. These higher costs for U.S. businesses will make their way through both goods-producing and services-oriented supply chains in the months to come, adding yet another complication to the Fed’s job of re-establishing 2% consumer price inflation per its dual mandate.

PNC Economics
economics@pnc.com

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