Economic Update

PNC

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PPI Inflation Takes a Shocking Turn Lower, Falling by 0.4% in March 2025

- **Final Demand PPI declined by 0.4% on a seasonally adjusted basis in March 2025**
- **Producers' Energy prices posted a second consecutive monthly decline, falling by 4.0% for the month of March**
- **Goods PPI gave back nearly three months' worth of gains in the March 2025 result, declining by a full 1.0% for the month**
- **Services PPI fell by 0.2% for the month in March 2025**

The Producer Price Index (PPI) was down sharply in March 2025, posting a 0.4% decline for the month on a seasonally-adjusted basis. This result translates to a 2.8% year-over-year gain in this topline measure of producers' costs—the weakest PPI inflation reading since September 2024 (+2.1% year-over-year). Both the Goods and Services sides of the U.S. industrial base contributed to March's surprise downward move in PPI inflation, falling by 1.0% and 0.2%, respectively. Although rhetoric surrounding tariff implementation was just building to its now fever pitch throughout the month of March, this result indicates that producers were at least not contending with an already-deteriorating environment entering what promises to be a volatile second half of the year regarding cost pressures.

March 2025's Energy PPI reading came in at -2.1% for the month. This puts producers' Energy price pressures up by 3.8% versus one year ago, which compares with a peak of +6.0% recorded for February after a year-long run-up from outright declines enjoyed throughout 2023. And for the first time since 2014's energy markets intervention by OPEC, aimed at undermining U.S. energy producers' economic model, the outlook for Energy costs looks to be less stressful for U.S. businesses than any other element of their cost structures. Oil prices have fallen dramatically in the past week as the U.S.'s "reciprocal tariff" plan went into effect before being paused for 90 days. One influential assumption is that global oil demand will take a hit from slower growth potential, which saps Energy pricing power. But OPEC also announced an output increase on April 3rd, which also fueled a decline in oil prices. With U.S. energy policy firmly geared toward more production – to the expressed chagrin of some U.S. energy producers given low prices – energy costs look like they will be the least of the U.S. industrial base's worries for some time to come.

A decline in Services PPI in March 2025 represents the second consecutive monthly outcome on that front. Services PPI was down by -0.2% for the month, following a -0.02% decline in February. This pair of results represents the first back-to-back monthly declines in the Services category since July & August 2016. Year-over-year Service PPI growth fell to 3.6% as a result, which puts this measure below the 4% threshold for the first time since October 2024 (+2.5%). The March numbers must be viewed with some skepticism, at least for now, as demand had seen significant disruption both to the upside and downside as businesses rushed to get

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ahead of tariffs and then were faced with wait-and-see angst in the lead up to "Liberation Day." Retailers' inventories held onto expansionary territory according to the March 2025 Institute for Supply Management survey, but only barely. So it would appear that the U.S. economy's services sector sat at an adequate baseline condition as the dawn of the U.S.'s new tariff regime was at hand.

A stark decline in manufacturers' costs also contributed significantly to the far weaker than expected March 2025 producer price inflation report. Goods PPI fell by 1.0% on the month, which was its first outright decline since September 2024 (-0.2%). Goods producers' prices are now up by 0.9% versus one year ago. A significant plotline that has been suggested regarding tariff implications is that U.S. producers will raise their prices simply because they can, given their international competitors' prices will be pushed up by tariffs. This will be an interesting story to follow in the months to come, especially now that U.S. goods producers' own costs have been clearly demonstrated to not be rising in any way that suggests that pressure to pass costs on to consumers was high leading into the implementation of the new tariff regime.

The Federal Reserve has dampened its signals regarding interest rate changes in the near term, trying to reinforce its "data dependent" messaging while simultaneously insisting that it cannot predict what ultimate impact tariffs will have on inflation and therefore cannot take any anticipatory action in either direction. The March 2025 CPI and PPI reports both now have indicated that inflationary pressures made some progress through the first three months of 2025, however. And the U.S. unemployment rate ticked back up to 4.2% in March, which is a number that has been connected with the Fed as adequately achieving their "full employment" mandate sustainably. Uncertainty for the months ahead will remain a crutch, but the hard data provide a solid argument in favor of further moves toward normalizing interest rates, which is still assumed to be lower from current levels. March 2025's PPI report adds to the sense that the Fed has an uncomfortable time ahead of it in balancing its messaging on "data dependency" versus "unpredictability."

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