Economic Update

September 12, 2024

PPI Inflation Remains Contained; First Fed Funds Rate Cut of Cycle to Come Next Week

- **The producer price index for final demand rose 0.2% in August, near its recent pace. The core PPI for final demand was flat over the month.**
- **Final demand goods prices were flat, while final demand services prices rose 0.4%.**
- **On a year-ago basis the overall PPI for final demand was up 1.7%, the slowest pace since February.**
- **With easing PPI inflation consumer inflation will continue to slow in the near term.**
- **PNC expects the FOMC to cut the fed funds rate by one quarter of percentage point next week.**

The producer price index for final demand increased 0.2% in August from July, according to the Bureau of Labor Statistics. This is close to the average pace in recent months; the index was flat in July. Final demand goods prices were flat in August from July, while final demand services prices rose 0.4% over the month, but that followed a decline of 0.3% in July. Final demand core PPI, excluding food, energy, and trade, was flat in August following a 0.6% increase in July.

On a year-ago basis overall final demand PPI was up 1.7%, the smallest gain since February and down from a recent peak of 2.7% in June. Core final demand PPI was up 3.3% year-over-year in August, where it has been roughly for the past five months.

PPI inflation surged from 2020 to 2022 as the pandemic disrupted supply chains and demand increased thanks to government aid and low interest rates. But with economic growth slowing, thanks in part to a tightening in money policy from the Federal Reserve, PPI inflation has been easing since mid-2022 and is now running at close to its pre-pandemic pace. Continued moderate growth in PPI inflation indicates that consumer inflation will continue to ease in the near term. Inflation measured using the Federal Reserve's preferred gauge, the core personal consumption expenditures price, peaked at 5.6% year-over-year in early 2022, but has been easing since then, down to 2.6% as of July. Inflation should be back to the central bank's 2% objective in the first half of 2025.

Although yesterday's CPI report reported slightly higher core inflation in August than expected, up 0.3%, inflation pressures are easing in the U.S. economy as demand growth slows and the labor market softens. The recent CPI and PPI reports support the start of a monetary policy loosening cycle with a 25-basis point cut in the federal funds rate when the Federal Open Market Committee meets next Tuesday and Wednesday (press statement on September 18). Inflation should continue to slow through the rest of this year and into next, supporting additional fed funds rate cuts in November and December of 2024, and into 2025. PNC is forecasting that the fed funds rate, which is currently in range between 5.25% and 5.50%, will end this year between 4.50% and 4.75%, and be down to around 3.5% by the middle of next year.

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Prices of intermediate processed goods dropped 0.1% in August, with the index for core (excluding food and energy goods) intermediate processed goods up 0.1%. Prices of intermediate unprocessed goods fell 3.7% in August from July, with core unprocessed goods prices down 2.7%. Prices for intermediate services fell 0.1% in August. Price pressures from the early stages of the production process remain scant as supply chains have recovered from the pandemic, demand growth has slowed, and the labor market has softened.

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