Economic Update

June 12, 2025

PPI Inflation Reversed Course in May 2025, Up by 0.1%

- **Final Demand PPI rose by 0.1% on a seasonally adjusted basis in May 2025, first gain since February**
- **Producers' Energy prices were flat in May**
- **Goods PPI accelerated in May 2025, gaining 0.2% for the month**
- **Services PPI rose 0.1% for the month in May 2025, up 3.2% versus one year ago**

The Producer Price Index (PPI) rose on a seasonally adjusted basis in May 2025, gaining 0.1% for the month after falling in both March and April. This result translates to a 2.6% year-over-year gain in this topline measure of producers' costs—up from 2.5% in April. Both the Goods and Services sides of the U.S. industrial base contributed to May's course reversal, while Energy prices were flat for the month and are down by 4.1% versus one year ago. Consumer prices surprised to the downside in their May 2025 data release as some impact of tariffs in April and assumptions of businesses frontrunning their own expected price increases was considered. In its reversal from outright declines, the May 2025 PPI report matched PNC's expectations and opens the door to those expected price hikes that will eventually find their way through to retail shelves and services.

May 2025's Energy PPI reading came in flat in May 2025, posting a 0.0% change from April. This puts producers' Energy price pressures 4.1% below year-ago levels. Oil prices remain below the $70 per barrel mark for both the West Texas Intermediate and Brent Crude benchmarks. 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.

Services PPI in May 2025 led the upward shift in Final Demand prices with an acceleration to a +0.1% gain after posting a decline in April. Service industry price pressures, which accounts for retailers' costs, are up by 3.2% versus one year ago after peaking at +4.5% year-over-year in January. The May numbers offer the first hint that higher prices resulting from U.S. tariff policy are anticipated, if not yet hitting bottom lines in earnest as yet.

Manufacturers' costs also contributed to May's turnaround toward higher prices for overall PPI in May 2025. Goods PPI rose by 0.2% on the month, which represents an acceleration from April +0.1%. Goods producers' prices are now up by 1.4% 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

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competitors' prices will be pushed up by tariffs. This will be an interesting story to follow in the months to come as the 90-day pause on "reciprocal tariffs" is set to expire in early July. Consumers continue to demonstrate a willingness to spend, with retail sales increasing in the February through April results. Consumers' *ability* to absorb further prices increases, however, remains to be seen.

The Federal Reserve continues to point to the potential of tariffs reigniting inflation in the second half of 2025 in officials' public comments, and in doing so underlining their willingness to maintain a "wait and see" approach on interest rates. The May 2025 PPI report is not the smoking gun regarding price pressures that the Fed is warning of, but the May 2025 report's reversal from outright declines in producer prices is a step toward the Fed's collective hypothesis bearing out in the U.S. economy's hard data. PNC continues to forecast only one 25 basis point rate cut from the Fed, that coming out of their December 2025 meeting, followed by two more quarter-point rate cuts in the current monetary policy cycle to open 2026.

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