September 10, 2025

PPI Inflation Posts a Surprise Fall, -0.1% in August 2025

Headlines

- **PPI for Final Demand fell 0.1% for the month in August, the first decline since April.**
- **Final Goods PPI fell by 0.1% in August 2025.**
- **Services PPI and Energy PPI led declines, down 0.2% and 0.4%, respectively.**
- **Goods PPI rose at its slowest pace since May, gaining 0.15% for the month.**
- **The Materials & Components for Manufacturing category continued its upward trend, gaining 0.5% for a second consecutive month, up 3.8% for the year.**

Details

The Producer Price Index (PPI) for Final Demand posted a surprise retreat in August 2025, falling 0.1% for the month. This is the first decline in this high-level measure since April (-0.3%). Services industries saw an outright decline in their cost pressures for the month, down 0.2%, while Goods producers experienced weaker gains than has been the case in recent months at +0.15%. This pause in the recent upward PPI inflation trend offers a modicum of relief to policymakers that are faced with a severely weakened labor market, calling for monetary policy easing, while they continue to battle consumer price inflation above their 2.0% average target with, in their words, “modestly restrictive” conditions.

The PPI Energy component index fell by 0.4% in August 2025. After two monthly gains in June and July, this month’s reading keeps energy costs for businesses 1.8% below year-ago levels. The last time Energy PPI posted positive growth year-over-year was January 2025 (+0.4%). As Energy costs hit all businesses either in direct production, transportation of goods to market, or daily retail operations, continued limited Energy PPI inflation at least extends an offsetting influence to the ongoing upward price pressures that U.S. tariff policy has been applying.

August 2025’s Services PPI came in at -0.2%, declining for a third month in the past five since April. This fall puts year-over-year Services PPI inflation at +2.9%, which is only the second sub-3% reading of the past year. Consumer spending on Services has slowed according to recent GDP reports from the Bureau of Economic Analysis, taking into account inflation (i.e., Real GDP), but Services spending has not fallen into decline like both Durable and Nondurable Goods categories briefly have. A

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slowdown in Services businesses' cost pressures would help to prevent this largest component of U.S. consumer spending keep its head above water in terms of growth.

Goods PPI settled somewhat in August 2025, with its monthly gain easing to 0.15%. This month's result breaks a four-month upward trend in Goods PPI growth acceleration. Goods PPI is now up 2.2% versus one year ago after sliding all the way to a +0.5% year-ago result in April. PPI related to the production of Goods–that is, the intermediate metric for Materials & Components for Manufacturing–did see its upward trend continue in August with a +0.5% rise. Thus August's reading on Final Demand for Goods is a welcome respite from the recent trend, there remains upstream cost concerns for Goods producers in the U.S. economy that have yet to make their way through the supply chain and, ultimately, to consumers.

August 2025's below-expectations PPI inflation report is a welcome result as Fed officials face new evidence of a hobbled U.S. labor market. Hiring over the past year saw a second year of severe downward revisions (-911,000) on Tuesday (September 9). This revelation ramps up pressure to keep U.S. employment from being pushed into outright declines through lower interest rates, but the overall inflation picture does not yet support such a move. If PPI begins to trend toward sustained weaker inflation starting with this month's report, the debate over the appropriate pace of monetary policy easing would become far less contentious. On its own, August's slower PPI inflation result does support PNC's call for a 25 basis point rate cut from September's FOMC meeting.

Please reach out with any questions,

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