Producer Price Index Up Only 0.8% for the Year through July 2023, but the Monthly Gain Still Flashes a Warning

- Final Demand Producer Price Index (PPI) up by 0.8% in July 2023 versus one year ago (not seasonally adjusted)

- Core PPI, less Food & Energy, increased by 0.3% for the month in July 2023

- Pricing for Intermediate Transportation & Warehousing Services bounced by 0.4% for July 2023 after consistent declines over the past year

The Producer Price Index (PPI) for July 2023 posted a modest gain in July 2023, increasing by 0.8% versus one year ago before seasonal adjustment influences. Because PPI decreased in five of the seven months prior, however, the 0.8% year-over-year result does not tell the whole story. The monthly, seasonally adjusted gain in July 2023's PPI was 0.3% which translates to a 3.6% annualized pace. This is the strongest monthly result since January 2023. Services PPI was the culprit behind July's rebound in producer cost pressures, which will help keep the Federal Reserve's tilt toward restrictive monetary policy intact.

Core PPI, which excludes food and energy components, was also up by 0.3% in July 2023. This result takes back the modest monthly decline seen in June and is the strongest monthly gain in the Core measure since November 2022. The annualized result – which assumes that current conditions for July 2023 were sustained for an entire 12-month period – for Core PPI growth climbed well above the recent 2.0-2.5% range to 3.8%. One month does not make a trend, but this bounce in Core PPI growth creates the potential for a speed bump that slows the deceleration in consumer price inflation in the coming months since these producer price increases will invariably be passed on to consumers.

Services price growth remains the lead story behind July's topline PPI result. Services PPI grew by 0.5% for the month, which translates to a 5.6% annualized pace. Unlike Goods PPI and even the topline PPI result, Services PPI has not seen consistent declines since the start of 2023 that complicate interpretation of the year-over-year metric. Services PPI is up 2.5% for the year – an acceptable result in perspective, but still in stark contrast to the Goods PPI's decline of 2.5% in the year through July 2023. Consumer spending remains focused on services despite ever-higher prices, with the 2023Q2 GDP report from the Bureau of Economic Analysis showing Personal Consumption Expenditures growth for services up 2.1% versus a 0.4% gain for spending in goods for that quarter. And as long as consumers continue to spend on services, service providers will continue to pass along any and all rises in their own costs to their customers.
Another potential cause for concern out of the July 2023 PPI report is that Intermediate Demand PPI for Transportation & Warehousing Services was up sharply for the month, with a 0.4% gain. This result comes on the heels of four consecutive months of declines in this category. Even if input costs for producers stabilize after July’s pop, an acceleration in transportation & warehousing costs would keep the pressure on the prices that consumers see on shelves and menus. With oil prices steadily rising over the past few weeks, the cost of transporting goods to market and managing inventories bears watching in the months to come.

Please reach out with any questions.

PNC Economics
economics@pnc.com

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