Economic Update

November 15, 2023

Topline PPI Inflation Follows Energy Prices Lower, Core PPI Flat for October 2023 Versus September

- **Topline PPI declined by 0.5% pace in October 2023 versus the month prior**
- **Core PPI, less Food & Energy, was flat in October 2023 versus September, up only 2.5% versus one year ago**
- **PPI for Final Demand: Goods posted a monthly decline in October 2023 for the first time since June**
- **Energy price reversal was a strong contributor to October 2023's PPI inflation respite, down 6.5% for the month**

Producer Price Index (PPI) inflation for October 2023 eased for the month on lower energy costs and weaker goods price pressures. Topline PPI inflation was down by 0.5% after seasonal adjustment to the data. This translates to a 1.3% year-over-year increase in PPI. Receding energy costs pushed topline prices down for the month, themselves falling by 6.5% in October 2023. But Core PPI, excluding volatile food and energy prices, also posted an encouraging 0.03% decline for the month.

Inflation in Final Demand for Goods among producers declined by 0.5% in October 2023. This is the first fall in the Goods component index since May and June 2023 and follows quite sharp increases in price pressures for Goods manufacturers through the end of the summer. Final Demand: Goods prices are now 1.1% below year-ago levels, resuming the deflationary path that had trended for much of the year through August, when higher oil prices began to make their way through to the broader economy. The weakening Goods PPI trend will limit price pressures on retail items for consumers as a diminished need to pass on higher production costs manifests.

Final Demand for Services saw inflation weaken for a third consecutive month in October 2023. Final Demand: Services PPI came in at -0.05% for the month, now down from a peak 0.8% monthly gain in July. Service providers' price pressures have been a concerning complement to strong discretionary spending in such categories by U.S. consumers throughout 2023. And while consumer spending is still fueling inflation even in service categories such as leisure & hospitality industries, the downward trend among service providers' own costs suggests that if consumer demand cools, consumer price inflation should also then have a path to stability – lacking significant supply-side inflationary pressure alone.

Wage growth remains a sticking point for both manufacturers' and service providers' production costs. Average wage growth in the U.S. manufacturing industry, year-over-year has trended above 4.5% since mid-2023 while wages in leisure & hospitality services has only recently slowed to the mid-4% range in year-over-year terms, which is similar to average wage gains in professional & business services. PPI's downward trend for both goods and services is weakening one driver of overall inflation in the U.S. economy and looks likely to continue to do so in the months to come. But a still-tight U.S. labor market will prevent labor costs from retrenching anytime soon. The Fed's hawkish view on monetary policy – while not yielding any further interest rate hikes – will thus remain justified in its "higher for longer" leanings in order to counter lingering influences such as strong wage growth in the economy's battle against inflation.

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