

Datanote: U.S. Producer Prices, January

In one line: Disinflation still on track; consistent with 2.6% core PCE inflation, down 0.2pp from December.

- The headline January PPI rose by 0.4%, above the consensus, 0.3%. Net revisions were +0.2%.

- The core PPI increased by 0.3%, above the consensus, 0.3%. Net revisions were +0.3%.

- The core ex-trade services index increased by 0.3%, above the consensus, 0.2%. Net revisions were 0.4%.

We calculate from the PPI and CPI data that the core PCE deflator increased by 0.28% in January, much less than the 0.50% increase a year ago. PPI portfolio management prices increased by just 0.1%, far less than the 6.2% jump in January 2024, primarily due to lower stock price gains. In addition, PPI prices for hospital

services increased by 0.4%, much less than the 1.3% increase in January 2024 and the 0.9% rise in the equivalent CPI measure. The PPI data for hospital services prices are based on the prices charged to people covered by third-party insurance, who benefit from much better deals than those paying out of their own pocket. The PPIs for physicians services, nursing home care and auto insurance—all of which also feed into the PCE deflator calculation—also rose much less quickly than a year ago. Meanwhile, unadjusted PPI health

insurance prices rose by just 1.0%, consistent with a seasonally adjusted drop of about 0.5%. PPI airline fares prices also point to a seasonally adjusted drop of about 1.5%. In the round, then, we think that PPI components collectively made a small negative contribution to the month-to-month change in the core PCE deflator in January.

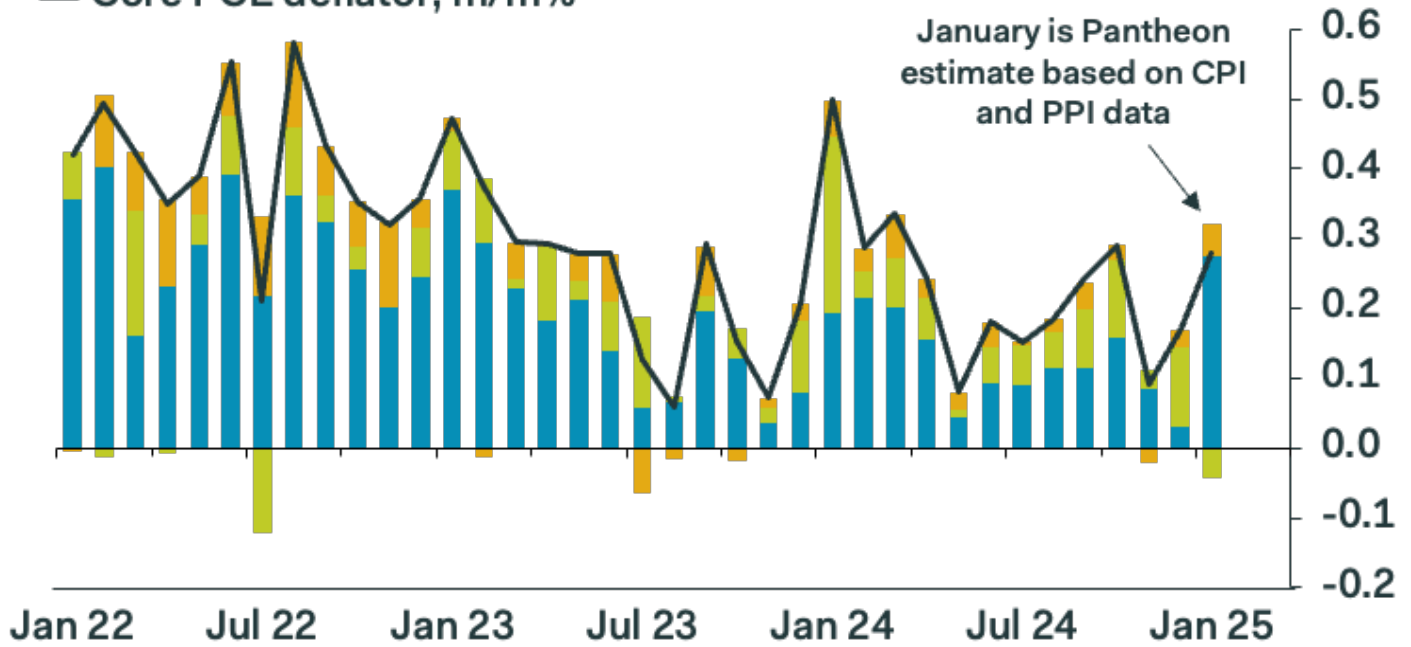
Our forecast for the core PCE deflator cannot be pinpoint accurate every month, as the BEA's seasonal

adjustment is impossible for external observers to replicate perfectly and some non-PPI/CPI data sources are unavailable prior to publication. Nonetheless, the average absolute error of our forecasts over the last nine months has been a mere 0.02pp. As a result, we think we can confidently say that core PCE inflation fell to 2.6%, from 2.8% in December. The Fed still can declare, therefore, that progress in returning inflation to its 2% objective is still being made.

Meanwhile, components of the PPI that reliably lead the CPI data paint a reassuring picture. PPI inflation for durable goods fell to 1.5%, from 1.6% in December, consistent with only a small further increase in CPI core goods inflation over the next couple months. In addition, PPI inflation for services prices excluding trade services, passenger transportation and portfolio management prices remained at 3.8% in January, consistent with a further fall ahead in CPI inflation for core services ex-rents from January's 4.1% rate.

Finally, PPI trade services prices—i.e. the gross margins of wholesalers and retailers—rose by an unthreatening 0.1% in January. Admittedly, the 8.2% rise in trade services prices for auto retailers provides a further signal that demand is running well ahead of supply in that sector, which is most sensitive to the threat of tariffs. But across the rest of the retail sector, we see no sign of widespread price gouging during the current period of strong demand for durable goods.

- Contrib. from components largely derived from other sources
- Contrib. from components derived from PPI data
- Contrib. from components derived from CPI data
- Core PCE deflator, m/m%



Pantheon Macro forecasts for PCE deflators

		Oct 24	Nov 24	Dec 24	Jan 25 PM forecast
Core PCE deflator	m/m%	0.27	0.11	0.16	0.28
	3m/3m% ann.	2.48	2.58	2.50	2.30
	y/y%	2.80	2.82	2.79	2.57
Headline PCE deflator	m/m%	0.24	0.12	0.26	0.31
	3m/3m% ann.	1.89	2.06	2.27	2.48
	y/y%	2.32	2.45	2.55	2.44

