

Datanote: U.S. Producer Prices, March 2024

In one line: Goods disinflation continues; margins and other services still sticky

- The March headline PPI rose 0.2%, a tenth below the consensus. 0.3%.
- The core rose 0.2%, in line with the consensus.

The core gains reflects modest increases across both goods and

services, while at the headline level food and energy prices both dipped, but not be enough to move the needle on the rounded m/m print; to three dp the headline rose 0.154%.

In the services sector, gross retail and wholesale margins - aka trade services - rose 0.3%, or 0.2% excluding the wildly volatile fuel component. Margins fell at a 0.4% annualized rate in Q1, rather slower than the 5.1% plunge in Q4. Margins remain hugely elevated compared to their pre-Covid

level, but we expect sustained re-normalization in the wake of a gradual softening in final demand, triggered by the lagged impact of the Fed's tightening and less supportive fiscal policy, while households now have a far smaller stock of excess pandemic savings than a year ago. Our chart shows how auto dealers, who saw the earliest, biggest, and fastest increase in margins during the pandemic, and their ongoing collapse suggests to us that elevated margins in other sectors are on borrowed time.

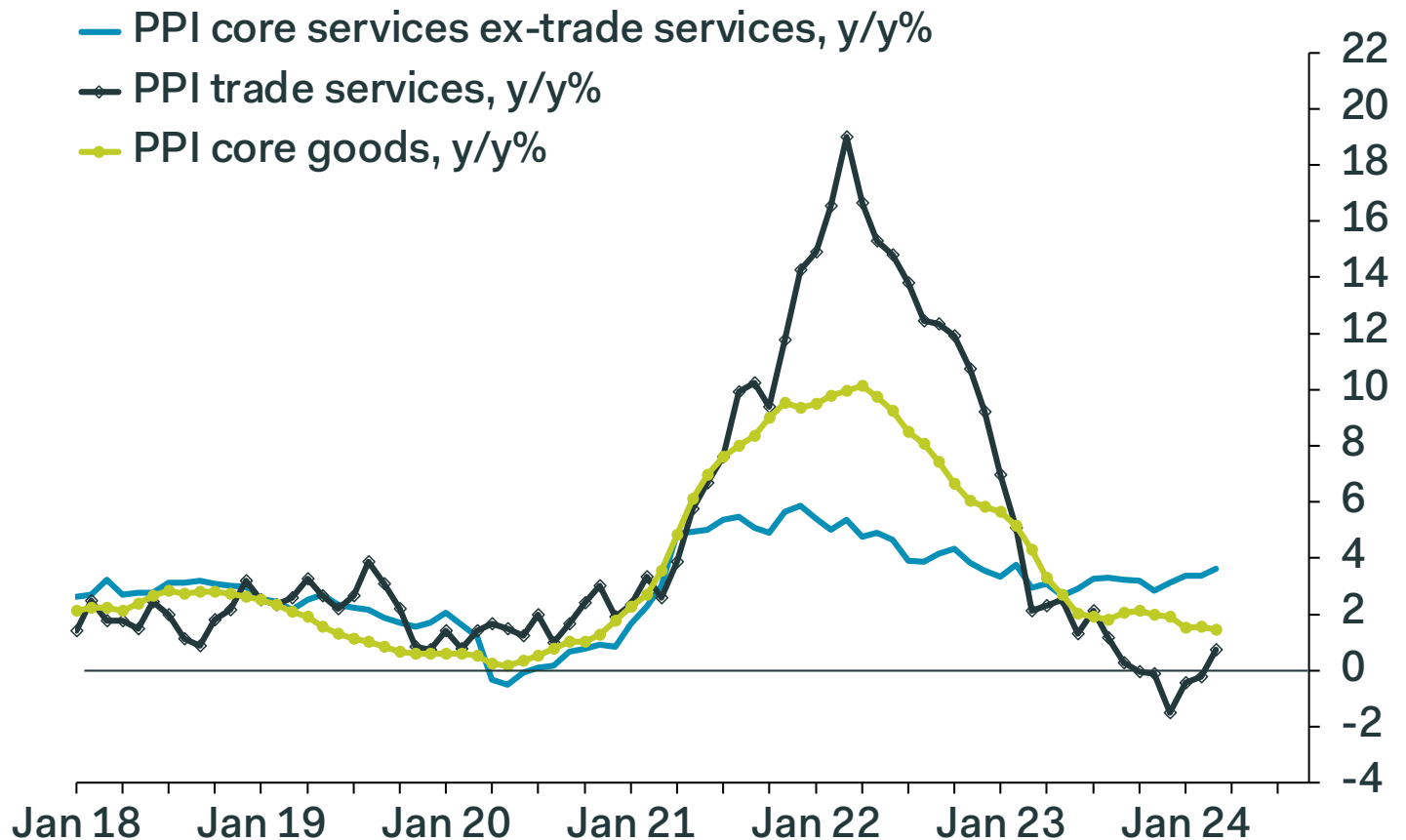
Prices for services other than trade services rose 0.3%, with a 0.04pp contribution from passenger transport, mostly airline fares rising due to higher fuel prices. Auto rental prices jumped 4.2%, but this followed declines totalling 6.2% in the previous two months. Elsewhere, the 1.0% jump in CPI hospital prices was not replicated in the PPI, where unadjusted prices were unchanged, signalling a 0.3% seasonally adjusted gain. PPI hospital inflation is 3.6% y/y, less than half the

pace of the CPI measure; people who pay sticker prices for their healthcare are getting a worse deal than employers buying healthcare for their staff. The PCE measure is dominated by the latter, fortunately.

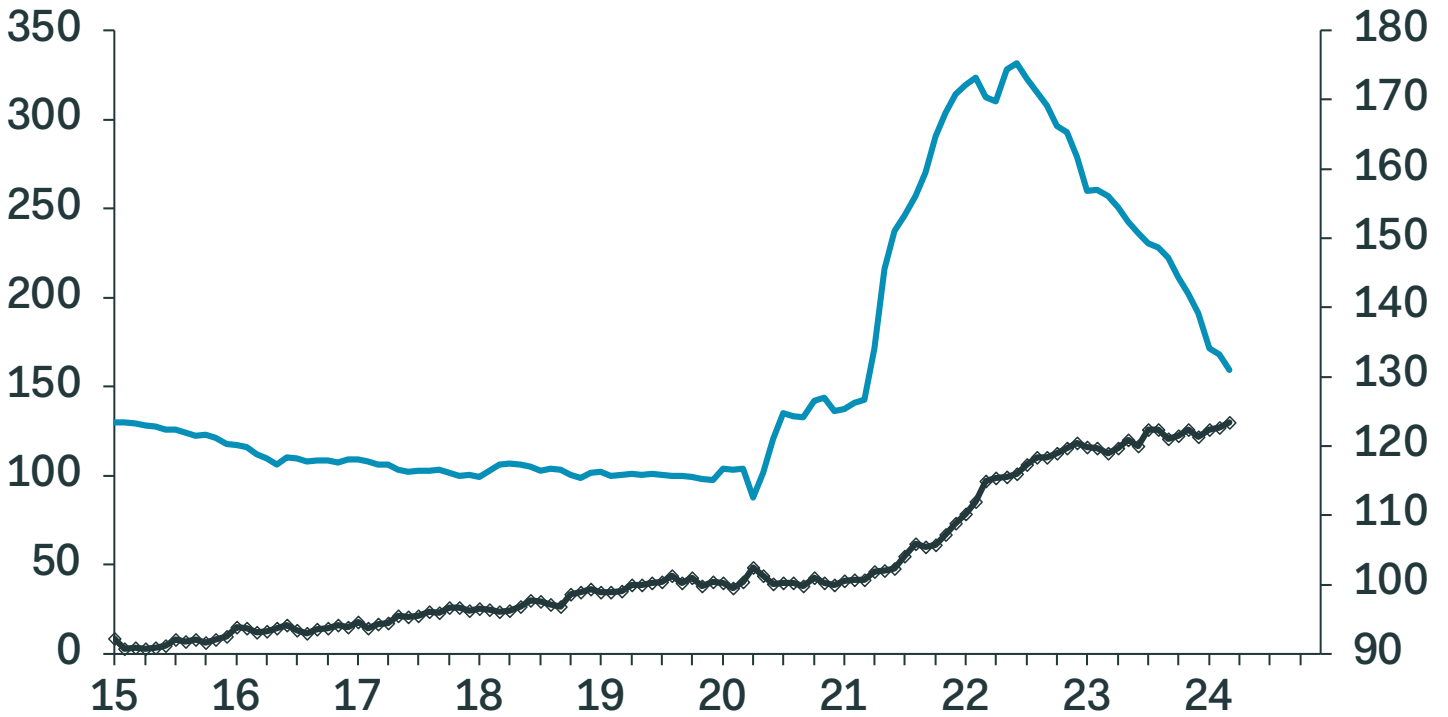
Core goods prices rose 0.1%, with a decline in prices for exported goods offsetting most of the small increases elsewhere. Core goods prices rose only 1.4% in the year to March, the smallest increase since early 2020, Covid shock excepted.

Adding the PPI data to yesterday's CPI numbers, we reckon the March core PCE deflator will be reported rising by 0.28%, similar to February's 0.26% and much better than the 0.45% jump in January. Given the inevitable margin of error in the PPI/CPI-to-PCE translation, we can't rule out a 0.2% print to one dp. Either way, the numbers won't fundamentally change any minds at the Fed, but they should calm some nerves. What really matters, though, is the April and May CPI and payroll

data, which will be released before the June FOMC decision.



— Auto retailing trade services, 2019 = 100 (Left)
 — Trade services ex-auto retailing, 2019=100 (Right)



— Pantheon core retail sales, 3m/3m annualized, % (Left)
 — PPI trade services, 3m/3m annualized, % (Right)



— China PPI for manufactured goods, y/y% (Right)

— U.S. PPI core goods, y/y% (Right)

