

Datanote: Producer Prices, January

In one line: More disappointment, but no change in the trend or the fundamentals

- The January PPI rose 0.3%, above the consensus 0.1%.
- The core rose 0.5%, well above the consensus, 0.1%.

The headline was constrained by a steep drop in energy prices and a

modest 0.3% dip in food prices, but all the attention will be on the overshoot in the core. To be clear, this is not a story of goods prices being driven up by the problems in the Red Sea; core goods prices rose by only 0.3%, a bit above the trend but well inside the range of the past year. Most of the core overshoot is in domestic services, with the BLS singling out a 2.2% jump in hospital outpatient prices as the biggest driver, adding 0.1% to the core. But we think this is in part a seasonal problem. The BLS does not adjust

the outpatient price series, arguing that the evidence of seasonality is not strong enough, but when we readjust the numbers (see chart) we find hefty seasonal effects, especially in January. We think it likely that the underlying pressure on hospital prices is to the upside, lagging the surge in wages in the sector in 2022/23, but the January print overstates the case. Elsewhere, the 4.7% leap in accommodation prices, which contributed 0.07% to the core, is just a partial reversal of the 6.7% plunge in December. The trend is

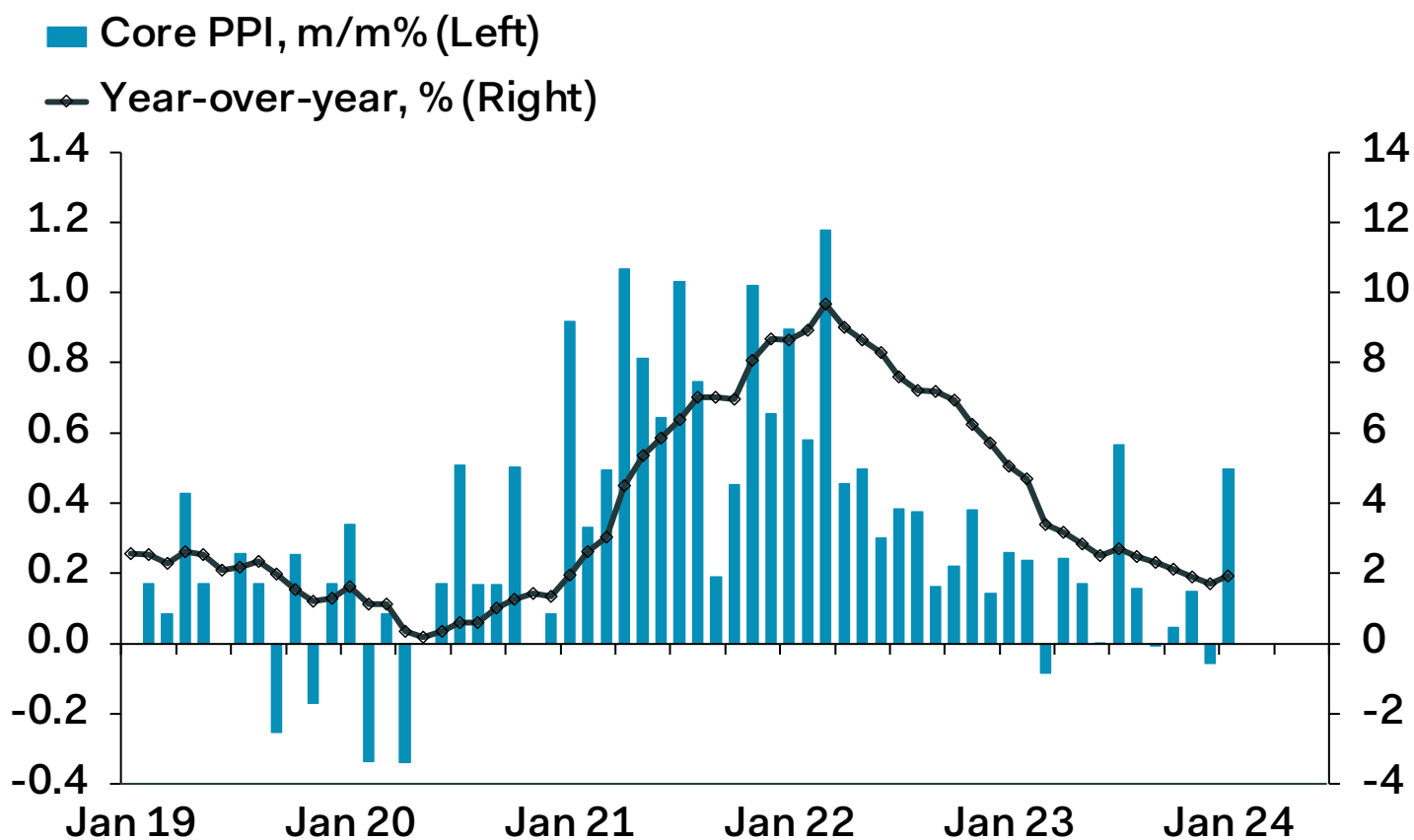
flat-to-slightly falling, consistent with the declining hotel occupancy rate.

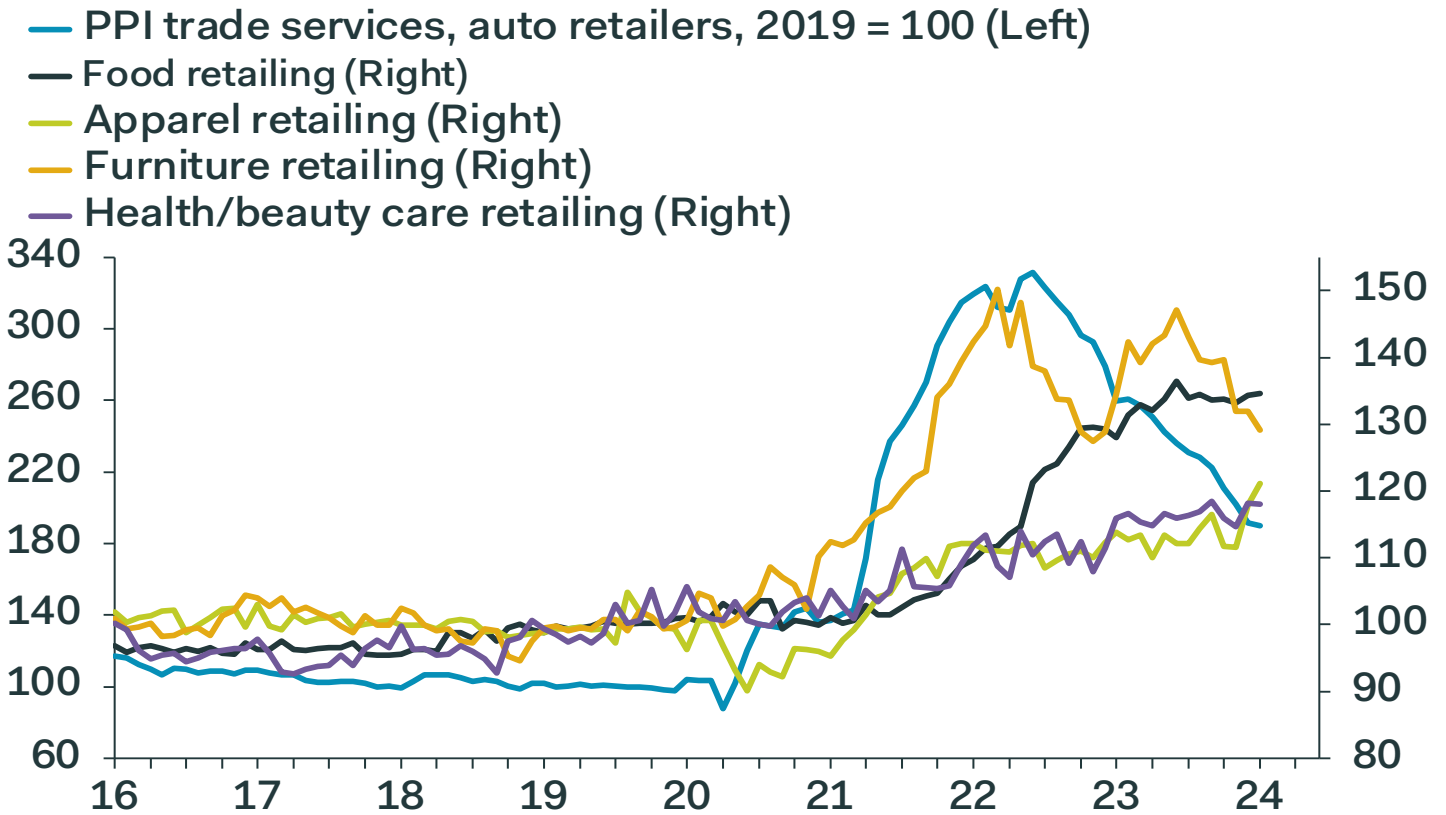
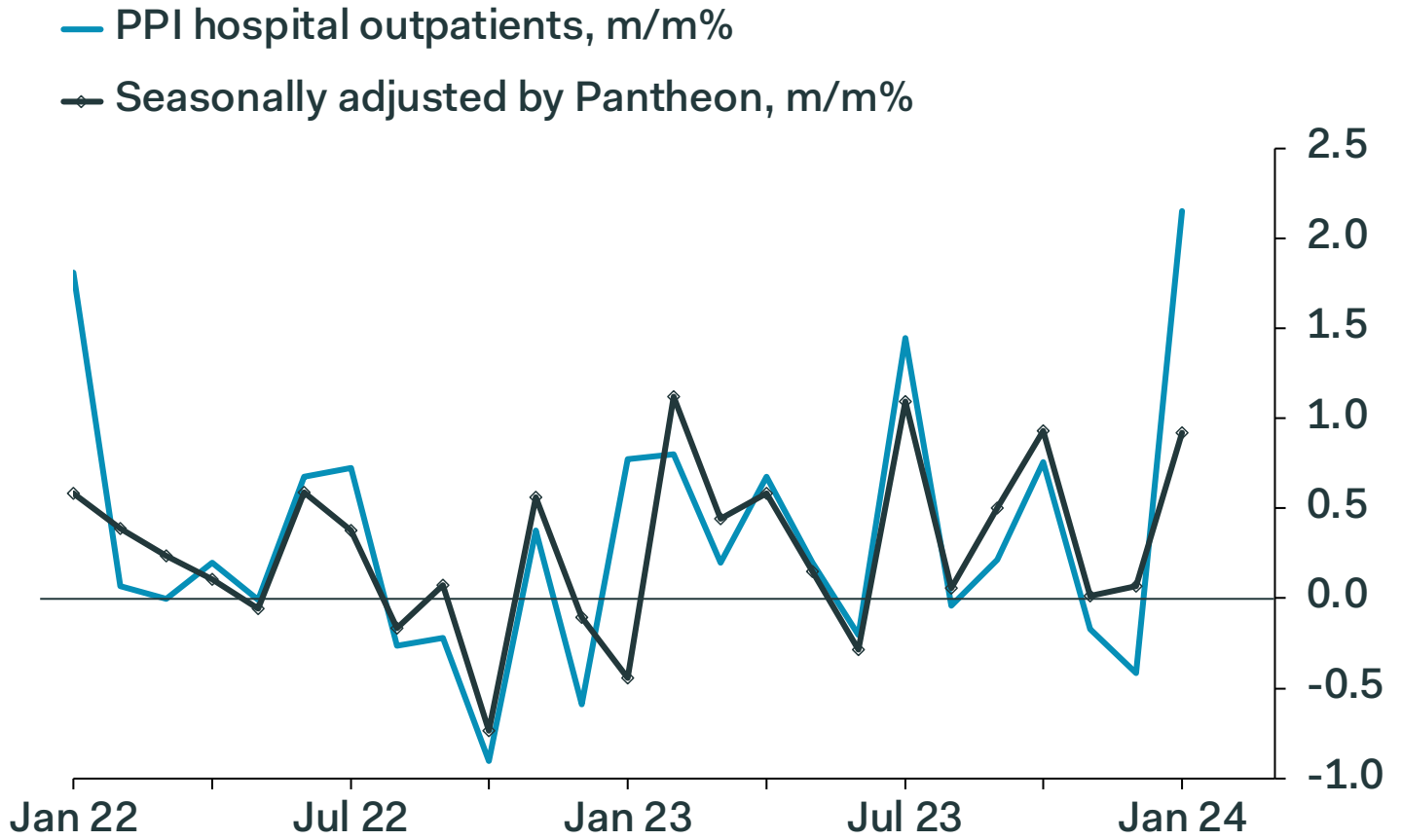
Trade services - gross wholesale and retail margins, accounting for nearly a quarter of the core - rose by 0.5%, excluding the wild fuels component. But this follows a 1.2% drop in December, and the trend is falling slowly. Margin performance varies massively by sectors, as our chart shows, but the big picture here over the course of 2024 is likely to be a gradual decline as demand slows. Consumers'

real incomes after tax will rise much less quickly this year than last, and the stock of excess pandemic savings for most households has now been spent.

Finally, the release of the PPI data means we can finalize our core PCE forecast for January, at 0.32%. That would be the biggest increase since September, but the three months since then all saw much smaller gains. Note too that nearly a quarter of the January increase will come from the portfolio management component, which just

lags the stock market. Bottom line: One disappointing month does not change the trend, and none of the inflation fundamentals have changed.





— Brent crude price, y/y%, advanced three months (Left)

—◆— PPI core goods, y/y% (Right)

