Goldman Sachs Research

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USA: Producer Price Index Increases by More Than Expected in April

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BOTTOM LINE: The producer price index (PPI), PPI excluding food and energy, and PPI excluding food, energy, and trade services all increased by more than expected in April, reflecting increases in the energy and energy-intensive transportation services components. However, the PPI components relevant for PCE were mixed. Based on details in the CPI and PPI reports, we estimate that the core PCE price index rose 0.30% in April (unchanged from our expectation prior to today's CPI report), corresponding to a year-over-year rate of +3.32%. Additionally, we expect that the headline PCE price index increased 0.45% in April, or increased 3.79% from a year earlier. We estimate that market-based core PCE rose 0.35% in April. We estimate that the Dallas Fed trimmed mean PCE index rose 0.25% in April (vs. 0.21% before today's report).

KEY NUMBERS:

PPI +1.4% (MoM) for April (+6.0% YoY) vs. GS +0.6%, median forecast +0.5%, prior revised +0.7%

PPI ex-food and energy +1.0% (MoM) for April (+5.2% YoY) vs. GS +0.5%, median forecast +0.3%, prior revised +0.2%

PPI ex-food, energy, and trade services +0.6% (MoM) for April (+4.4% YoY) vs. GS +0.3%, median forecast +0.3%, prior +0.2%

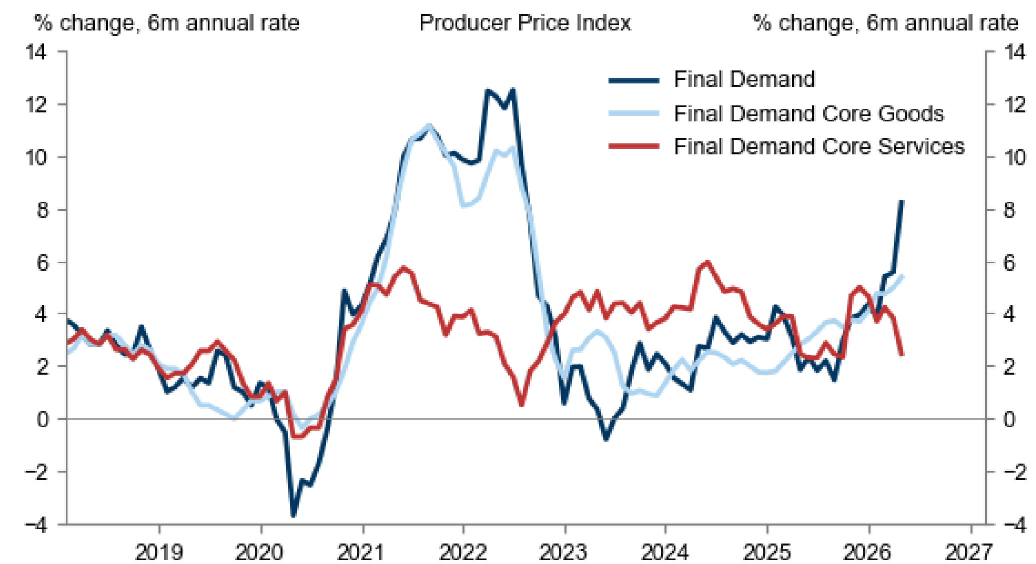
MAIN POINTS:

1. The producer price index (PPI) rose 1.4% in April, well above expectations. Energy prices (+7.8%) increased sharply in April as a result of higher oil prices from the Iran war. The core PPI and PPI excluding food, energy, and trade services increased by 1.0% and 0.6% in April, respectively. The March growth rates for the PPI (+0.2pp to +0.7%) and core PPI (+0.1pp to +0.2%) were both revised up. Transportation and warehousing services prices increased sharply by 5% in April, reflecting higher gasoline and jet fuel prices and contributing about 0.3pp to the increase in core PPI. Retailer margins increased by 2.7%. The 'old methodology' core PPI—finished goods excluding food and energy—increased by 0.4%. Core intermediate producer prices increased by 1.5%, and the prices of crude materials less food and energy declined by 1.0%.

2. While the topline PPI numbers were stronger than expected, the PPI components relevant for PCE were mixed. The domestic passenger airfares component increased by 3.0% in April, while the portfolio management component declined by 2.4%. The medical care PPI categories relevant for the PCE report increased on net. Using PPI and interim PPI data (which we seasonally adjust), we estimate a 0.22%

month-over-month increase in the PCE medical care services category for the month of April.

3. Based on details in the CPI and PPI reports, we estimate that the core PCE price index rose 0.30% in April (unchanged from our expectation prior to today's CPI report), corresponding to a year-over-year rate of +3.32%. Additionally, we expect that the headline PCE price index increased 0.45% in April, or increased 3.79% from a year earlier. We estimate that market-based core PCE rose 0.35% in April. We estimate that the Dallas Fed trimmed mean PCE index rose 0.25% in April (vs. 0.21% before today's report).



Source: Department of Labor, Goldman Sachs Global Investment Research