

US Watch

February PCE inflation tracking: A small sigh of relief

PPI firmer than expected on energy prices

PPI came in firmer than expected in February. Headline rose by 0.6% m/m (expected: 0.3% m/m) owing to a 6.8% increase in gasoline prices. Core increased by 0.3% m/m (expected: 0.2% m/m) and core-core rose by 0.4% m/m (expected: 0.3% m/m). In our view, the data suggests broad-based goods deflation will be harder to come by this year.

Firm core goods but margins are seeing compression

Core goods PPI rose by 0.3% m/m for a second consecutive month in February. This is a touch above the 0.2% m/m run rate in 2022 and was driven by a 0.6% m/m increase in nondurable core consumer goods. On the services side, transportation and warehousing services surged 0.9% m/m owing in large part to a 2.4% jump in passenger transportation. Transportation and warehousing of consumer goods rose by a more modest 0.3% m/m. The good news for the consumer is that firms appear to have absorbed some of these higher costs as margins, trade services PPI, fell 0.3% m/m.

Details for PCE inflation were softer this month

The details of the PPI report that flow through to the calculation of PCE inflation were generally softer this month than last. Monthly changes in PPI physician offices, hospital services, and portfolio management were all weaker in February (Exhibit 7).

Core PCE likely to print at a soft 0.3% m/m in February

Based on the January PPI and CPI (Consumer Price Index) data, we expect core PCE inflation to print at a soft 0.3% m/m in January (0.28% unrounded). Given the PPI data, PCE inflation should slow for financial services financial services (2.5% m/m in Jan vs. 0.5% m/m in Feb); health care PCE (0.5% m/m vs. 0.1% m/m), and core services ex housing services (0.6% m/m vs. 0.3% m/m).

If our forecast proves correct, then the six-month annualized rate of core PCE would likely accelerate from 1.5% to 2.9%, and the y/y rate would remain at 2.8%. Meanwhile, we expect headline PCE inflation to print at 0.4% m/m (0.35% unrounded), and for the y/y rate to remain at 2.4%.

A little better picture than January

The February inflation data were not great, but they were modestly encouraging after alarming data in January. Core PCE inflation should soften in February, but 0.28% m/m is still too high for the Fed. We continue to expect the Fed will start its cutting cycle in June with a 25bp cut. However, it will need to see more improvement in the upcoming inflation data to have enough confidence to begin to ease.

(Exhibits on next page)

14 March 2024

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PPI = Producer Price Index

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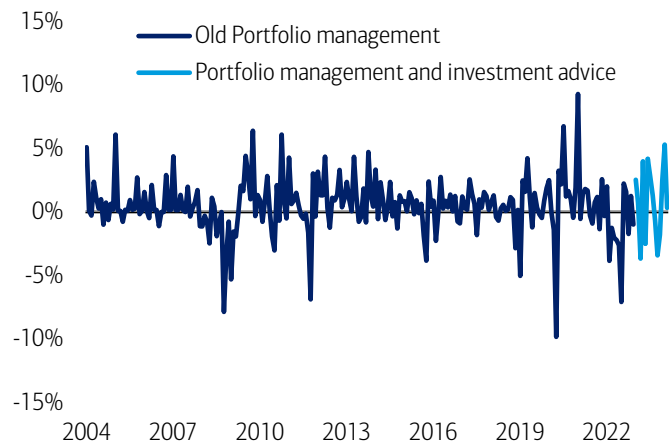
Refer to important disclosures on page 5 to 7.

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Exhibit 1: PPI Portfolio management (% m/m)

Growth in PPI for portfolio management slowed sharply in February

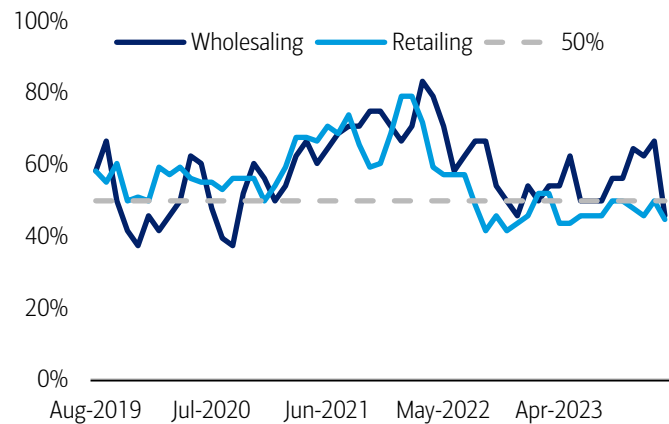


Source: Bureau of Labor Statistics

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Exhibit 3: Diffusion index for margins (3-month moving average)

Margins are falling for many retail and wholesale industries

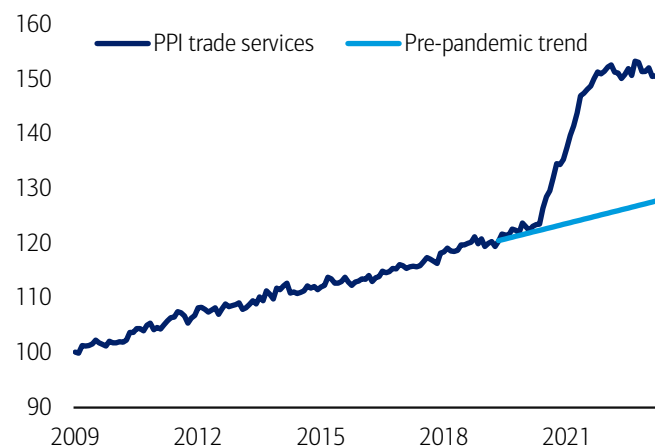


Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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Exhibit 2: PPI trade services (Nov-09 =100)

PPI trade services, a measure of margins, fell in February

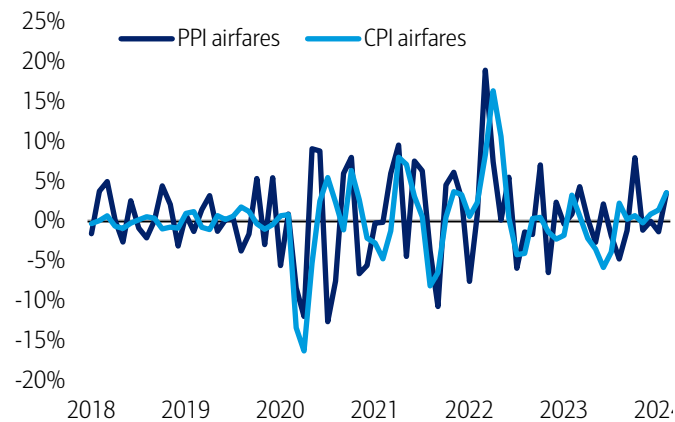


Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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Exhibit 4: PPI and CPI for airfares (% m/m)

PPI for airfares was about in line with CPI airfares in February

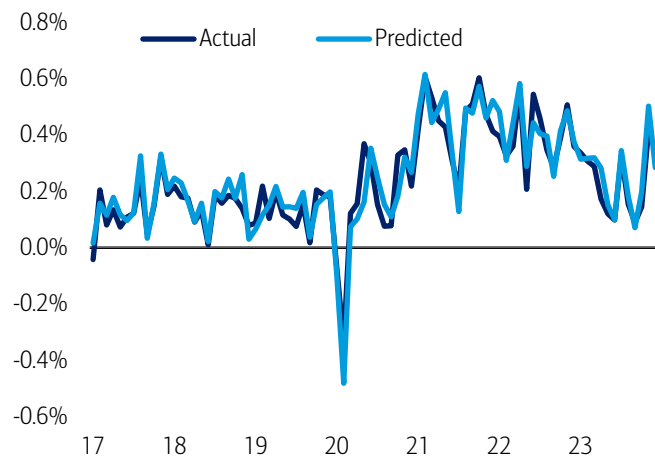


Source: Bureau of Labor Statistics

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Exhibit 5: Predicted and actual core PCE inflation

We expect core PCE inflation to print at a soft 0.3% m/m in February (0.28% unrounded)



Source: BofA Global Research, Bureau of Labor Statistics, Bureau of Economic Analysis, Haver Analytics

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Exhibit 7: Summary table of PPI components that are used in the calculation of PCE inflation

Below is a summary table of PPI components used in the calculation of PCE inflation

PPI component	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
Apparel % m/m	0.1%	1.3%	0.0%	0.0%	-0.4%	0.3%	0.0%	0.0%	0.2%	0.6%	0.0%	0.0%
% y/y	2.2%	1.4%	0.7%	0.7%	0.8%	1.2%	1.3%	1.5%	1.9%	2.0%	1.9%	2.2%
Offices of Physicians % m/m	0.1%	1.3%	0.1%	0.0%	0.1%	0.0%	0.0%	0.2%	-0.1%	0.1%	0.0%	0.1%
% y/y	1.9%	2.0%	0.3%	0.4%	0.5%	0.7%	0.8%	0.8%	0.6%	0.7%	0.6%	0.4%
Home Health Care Services % m/m	0.0%	0.5%	0.0%	0.0%	0.4%	0.4%	0.6%	0.3%	0.1%	0.0%	0.7%	0.3%
% y/y	3.4%	3.8%	4.2%	4.4%	4.5%	5.9%	5.7%	5.1%	4.6%	4.4%	4.4%	3.3%
Hospitals % m/m	0.2%	1.2%	-0.1%	0.0%	1.1%	-0.3%	0.0%	0.4%	0.0%	0.2%	0.6%	0.2%
% y/y	3.6%	3.5%	2.8%	3.1%	2.9%	2.1%	2.3%	2.5%	2.4%	3.2%	3.4%	2.5%
Nursing Care Facilities % m/m	-0.1%	0.3%	1.2%	0.1%	1.1%	0.1%	0.4%	1.3%	-0.1%	-0.1%	-0.4%	0.3%
% y/y	4.2%	4.9%	5.9%	4.7%	5.0%	5.2%	5.3%	5.6%	6.1%	6.4%	6.5%	7.0%
Scheduled Passenger Air Transportation % m/m	3.5%	-1.3%	0.0%	-1.1%	7.9%	-1.2%	-4.7%	-1.8%	2.1%	-2.7%	0.3%	4.3%
% y/y	4.8%	2.1%	3.1%	5.5%	-0.1%	-1.0%	-1.5%	2.0%	-2.2%	1.0%	3.9%	11.3%
Securities Brokerage Services, Exchange-Listed Equities % m/m	0.0%	1.9%	3.9%	-0.2%	-4.2%	1.8%	0.0%	1.7%	-5.6%	11.4%	0.4%	-2.1%
% y/y	8.3%	10.7%	0.6%	4.1%	2.5%	4.9%	3.3%	2.7%	-9.1%	-3.8%	-13.2%	-9.3%
Securities Brokerage Services, All Other Securities % m/m	0.0%	0.2%	0.0%	-0.2%	0.3%	-0.1%	0.0%	0.0%	-0.1%	-0.2%	0.1%	0.2%
% y/y	0.2%	0.3%	0.1%	0.2%	0.4%	0.0%	0.1%	0.1%	0.0%	0.1%	0.3%	0.0%
Dealer Transactions/Market Making In Over-the-Counter Equities % m/m	18.9%	-3.5%	7.4%	1.9%	-0.1%	2.6%	1.5%	1.2%	0.0%	15.5%	-20.1%	-2.3%
% y/y	19.2%	8.9%	10.4%	-8.7%	-4.2%	8.4%	2.0%	-0.3%	-7.4%	-30.8%	-35.2%	-26.8%
Dealer Transactions, Debt Securities & All Other Trading % m/m	-6.3%	4.6%	0.2%	4.3%	-1.9%	-0.4%	-5.0%	-1.7%	-0.7%	-6.9%	-1.4%	10.1%
% y/y	-6.2%	-0.1%	-7.3%	-8.0%	-8.2%	-7.4%	-12.0%	-8.2%	2.0%	10.5%	15.0%	-7.9%
Oth Securities Rel Serv Incl Margin Lending/Mutual Fund Sales % m/m	0.1%	0.6%	1.6%	0.1%	-1.5%	0.0%	2.5%	1.7%	0.1%	2.7%	4.1%	-1.3%
% y/y	11.0%	16.3%	18.2%	16.3%	37.3%	53.0%	52.8%	70.9%	65.2%	64.7%	103.1%	103.1%
Portfolio Management % m/m	0.3%	5.3%	2.5%	-1.8%	-3.4%	-0.7%						
% y/y												
Trust Services % m/m	0.7%	0.0%	-0.1%	-7.8%	0.0%	0.0%	5.1%	0.0%	0.0%	2.6%	0.0%	0.0%
% y/y	0.1%	2.8%	2.9%	3.0%	5.7%	5.7%	5.9%	-8.7%	-8.6%	-8.6%	-10.6%	-10.6%
Dir Property/Casualty Ins Carriers, Homeowner Insurance % m/m	0.8%	0.0%	0.1%	-0.1%	0.1%	3.1%	0.2%	0.3%	0.9%	0.5%	1.2%	1.0%
% y/y	8.4%	7.7%	7.6%	8.0%	8.4%	7.4%	4.8%	4.8%	4.4%	3.7%	3.6%	2.3%
Employment Placement Services % m/m	-0.2%	0.4%	0.8%	0.7%	-0.5%	0.4%	-1.1%	2.2%	-0.5%	-1.0%	2.4%	1.2%
% y/y	4.8%	2.4%	1.9%	1.5%	0.0%	0.5%	2.3%	2.4%	1.4%	2.6%	3.2%	3.0%

Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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Exhibit 8: PPI heat map (% m/m, NSA unless otherwise listed)

Below is a heat map of the PPI data.

Weight	Category	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23
100.0	Headline PPI (SA)	0.56%	0.32%	-0.06%	0.05%	-0.33%	0.21%	0.63%	0.56%	0.01%	-0.22%	0.17%	-0.35%
88.9	Core PPI (SA)	0.29%	0.45%	-0.01%	0.15%	0.08%	-0.01%	0.16%	0.57%	0.00%	0.17%	0.24%	-0.09%
69.6	Core core PPI (SA)	0.44%	0.56%	0.28%	0.06%	0.10%	0.31%	0.24%	0.24%	0.23%	0.02%	0.17%	0.08%
0.7	Farm Products	2.98%	-0.35%	-2.11%	2.85%	-2.95%	-1.84%	-3.04%	-2.87%	1.60%	-5.45%	1.63%	-0.27%
5.4	Processed Foods and Feeds	0.54%	-0.51%	0.22%	-0.71%	-0.16%	0.45%	0.46%	-0.17%	-0.30%	0.23%	-0.47%	0.63%
0.2	Textile Products and Apparel	-0.03%	0.14%	-0.11%	-0.27%	0.37%	0.94%	-0.61%	0.18%	-0.10%	-0.38%	-0.22%	-0.07%
0.0	Hides, Skins, Leather, & Related Products	0.37%	0.70%	-0.12%	0.32%	-1.19%	0.14%	0.55%	0.88%	-0.68%	0.11%	0.10%	0.16%
5.5	Fuels and Related Products and Power	5.77%	1.67%	-5.63%	-4.14%	-5.66%	2.28%	8.15%	1.99%	1.19%	-4.63%	-1.03%	-3.41%
2.8	Chemicals and Allied Products	0.94%	-0.42%	-0.68%	-0.63%	0.60%	0.06%	-0.34%	-1.32%	-1.03%	-0.86%	0.10%	-0.75%
0.7	Rubber and Plastic Products	0.00%	0.06%	-0.14%	0.12%	0.03%	-0.19%	-0.15%	-0.52%	-0.62%	-0.24%	0.14%	-0.25%
0.1	Lumber and Wood Products	0.83%	0.08%	0.30%	-0.75%	-0.80%	0.17%	-1.66%	0.89%	-0.60%	-0.20%	-0.42%	-0.61%
0.9	Pulp, Paper, and Allied Products	0.34%	0.44%	-0.10%	-0.03%	-0.65%	0.22%	0.18%	-0.25%	-0.09%	-0.14%	-0.13%	-0.24%
1.2	Metals and Metal Products	0.39%	1.16%	1.43%	-0.12%	-0.76%	-0.76%	-0.60%	-1.47%	-0.89%	0.47%	0.76%	0.88%
4.7	Machinery and Equipment	0.36%	0.93%	0.03%	0.11%	0.14%	0.17%	0.20%	0.34%	0.12%	0.07%	0.38%	0.39%
0.9	Furniture and Household Durables	-0.07%	0.39%	-0.22%	0.19%	-0.30%	0.27%	0.08%	0.07%	0.01%	0.13%	-0.02%	0.11%
0.2	Nonmetallic Mineral Products	0.59%	2.31%	-0.12%	0.16%	0.13%	0.31%	0.30%	0.11%	0.21%	0.26%	-0.17%	0.31%
5.0	Transportation Equipment	0.15%	0.27%	-0.17%	0.11%	0.40%	0.35%	0.03%	0.17%	0.00%	0.16%	0.10%	0.19%
1.6	Miscellaneous Products	0.97%	0.40%	0.57%	0.42%	0.34%	0.23%	0.48%	0.29%	0.04%	1.02%	-0.01%	0.22%
4.9	Transportation Services	0.47%	0.48%	-0.29%	-0.53%	1.26%	-0.24%	-0.40%	0.21%	0.37%	-0.73%	-1.49%	-0.26%
0.0	Services Related to Transportation Activities	1.79%	0.24%	3.65%	-0.67%	1.10%	1.07%	-3.99%	0.39%	1.21%	-0.04%	-1.25%	-2.01%
0.0	Warehousing, Storage, & Related Services	2.04%	0.45%	-0.05%	-0.39%	-0.27%	1.96%	-1.09%	1.49%	-1.28%	-2.20%	0.06%	-0.32%
0.7	Publishing Sales, excluding Software	1.16%	1.23%	1.18%	0.27%	0.16%	0.20%	-0.41%	0.20%	0.42%	0.06%	0.40%	0.50%
1.9	Software Publishing	0.49%	0.11%	1.62%	-1.32%	1.97%	0.37%	1.02%	-0.14%	0.50%	0.53%	-0.20%	0.02%
0.1	Network Compensation from Broadcast & Cable Telev	0.00%	0.17%	0.00%	0.00%	0.00%	0.00%	0.19%	0.00%	-0.29%	0.20%	0.00%	1.14%
0.0	Advertising Space and Time Sales	0.53%	-2.19%	0.06%	2.04%	1.06%	-0.40%	-1.88%	-3.98%	-0.94%	0.26%	4.60%	-0.46%
3.2	Telecommunication, Cable, & Internet User Service	0.50%	0.66%	0.48%	-0.06%	0.04%	-0.86%	0.53%	-0.11%	0.13%	-0.12%	0.18%	0.69%
0.7	Data Processing and Related Services	0.12%	0.39%	0.30%	0.25%	0.23%	-0.20%	0.13%	0.32%	0.27%	0.10%	-0.05%	0.26%
1.8	Credit Intermediation Services	0.66%	3.32%	-0.52%	2.58%	-1.46%	-0.21%	1.93%	-1.47%	1.15%	-0.51%	2.91%	-3.58%
3.3	Investment Services	0.73%	2.61%	2.00%	-0.70%	-2.14%	0.05%	1.35%	1.83%	1.71%	0.54%	1.32%	-1.52%
3.3	Insurance and Annuities	0.46%	0.38%	0.29%	0.02%	0.03%	0.33%	0.18%	0.02%	1.03%	0.10%	0.29%	0.17%
2.5	Real Estate Services	-2.06%	0.85%	0.44%	0.74%	-1.44%	0.86%	1.94%	0.14%	1.16%	0.52%	1.43%	-0.90%
0.3	Rental & Leasing Of Goods	0.02%	-2.88%	-0.34%	-2.80%	1.78%	-2.01%	-0.77%	1.41%	1.86%	-0.80%	-0.63%	1.44%
3.6	Professional Services	0.52%	2.07%	0.25%	0.19%	-0.33%	0.98%	-0.39%	0.41%	0.46%	-0.14%	0.57%	-0.24%
0.1	Employment Services	-0.18%	0.03%	0.18%	0.21%	0.22%	-0.02%	-0.32%	0.07%	-0.18%	-0.08%	0.44%	0.55%
0.1	Travel Arrangement Services	0.24%	-0.42%	-0.49%	0.04%	-2.88%	-0.46%	2.25%	4.38%	0.55%	0.19%	-1.06%	-0.34%
0.1	Selected Security Services	0.59%	2.81%	2.37%	-0.20%	0.81%	-0.12%	2.61%	0.17%	0.06%	2.07%	0.07%	0.33%
0.1	Cleaning & Building Maintenance Services	0.00%	0.68%	0.04%	0.43%	0.09%	-2.45%	0.04%	-0.06%	0.01%	-0.17%	0.87%	0.13%
0.3	Waste Collection & Remediation Services	-0.57%	0.33%	-0.95%	0.53%	0.02%	0.84%	1.31%	-0.09%	-0.35%	-0.23%	1.19%	2.02%
17.0	Health Care Services	0.31%	1.01%	0.07%	-0.02%	0.74%	0.36%	0.07%	0.63%	-0.01%	0.13%	0.29%	0.25%
1.2	Accommodation Services	6.86%	-1.50%	-2.52%	-2.36%	-1.58%	-1.31%	-3.30%	0.20%	7.22%	-2.76%	-0.79%	8.31%
0.5	Food & Beverage for Immediate Consumption Service	0.72%	0.07%	0.00%	0.24%	0.99%	0.14%	0.75%	0.18%	0.14%	0.01%	0.36%	0.15%
0.5	Repair & Maintenance Services	-0.02%	1.31%	0.36%	0.34%	0.14%	0.50%	1.33%	0.38%	-0.03%	-0.11%	0.89%	0.95%
0.9	Entertainment Services	0.13%	-0.53%	1.99%	0.91%	1.81%	0.24%	-1.06%	-0.09%	-0.04%	-0.90%	-0.53%	0.29%
10.3	Wholesale Trade Services	-0.24%	1.43%	-2.15%	1.84%	1.43%	-1.69%	-0.73%	3.65%	-1.30%	0.05%	1.67%	-0.02%
9.0	Retail Trade Services	0.26%	-1.58%	0.47%	-2.12%	-0.84%	0.82%	1.09%	-1.38%	-0.46%	0.25%	-0.66%	0.36%
0.7	Mining Services	0.42%	-0.33%	1.30%	1.23%	-0.73%	0.81%	-0.29%	0.05%	-0.07%	-0.52%	-0.68%	1.10%
2.7	Construction	0.01%	0.26%	0.05%	-0.12%	-0.22%	0.05%	0.08%	-1.08%	0.03%	0.24%	-0.16%	0.14%

Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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