

US Watch

December PCE inflation tracking: Another step closer for the Fed

PPI: softer than expected in December

The PPI report was softer than expected. Headline PPI fell by 0.1% m/m and the prior month was revised down a tenth to -0.1% m/m also. Consensus was looking for a 0.1% m/m print. This resulted in a y/y rate of 1.0%, two tenths up from November. Core PPI was flat on the month, below expectations for a 0.2% m/m increase leading the y/y rate to tick down two-tenths to 1.8%. Lastly, core-core PPI, which excludes energy, food and trade services (margins) came in as expected at 0.2% m/m.

Details for PCE inflation were firmer this month

The details of the PPI report that flow through to the calculation of PCE inflation were stronger than November on net, by our estimate (Exhibit 6). This is particularly true for components of PPI used in the calculation of financial services: portfolio management and investment advice (+2.2% m/m) and dealer transactions for equity securities (+7.4%). The former moves with lagged financial asset price performance. Therefore, the increase this month, which followed three consecutive monthly declines is not surprising to us given the strength of financial markets in recent months.

Outside of financial services, PPI for medical services was marginally stronger than November. Meanwhile, PPI for health insurance was slightly weaker than November, by our estimate. On net, while the PPI data that affect PCE inflation was stronger than last month, it was marginal.

Core PCE likely to be a soft 0.2% m/m in December

Based on today's PPI report and yesterday's CPI (Consumer Price Index) data, we expect core PCE inflation to print at a soft 0.2% m/m in December (0.17% unrounded, Exhibit 5). We see risk that core PCE could round down to 0.1% m/m. Therefore, the wedge between core CPI and core PCE should persist. If our forecast proves correct, then the six-month annualized rate of core PCE would remain at 1.9% while the 6-month annualized change in core CPI was 3.2% in December. Moreover, the y/y rate would fall three-tenths to 2.9%.

Meanwhile, we expect headline PCE inflation to print at 0.15% m/m, barely rounding up to 0.2%, and for the y/y rate to hold at 2.6%. Our expectations for December Core PCE support our call for the Fed to start its cutting cycle with a 25bp cut in March.

(Exhibits on next page)

12 January 2024

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PCE = Personal Consumption
Expenditure

CPI = Consumer Price In

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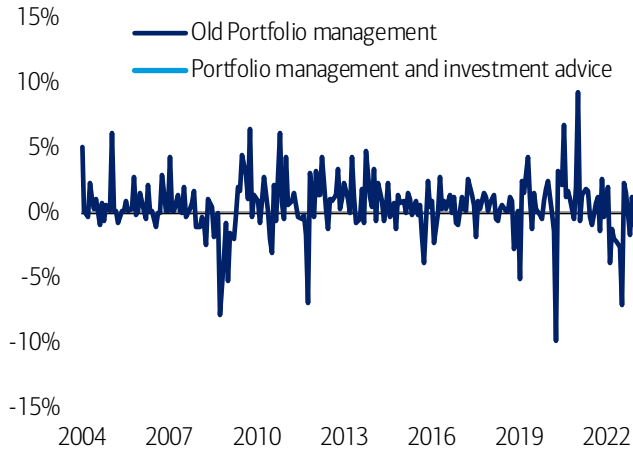
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Timestamp: 12 January 2024 09:51AM EST

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

PPI for portfolio management rose in December

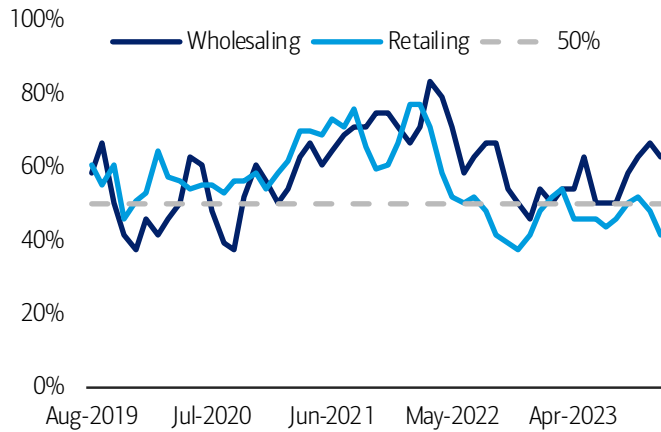


Source: Bureau of Labor Statistics

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

Margins are decreasing in more retail industries

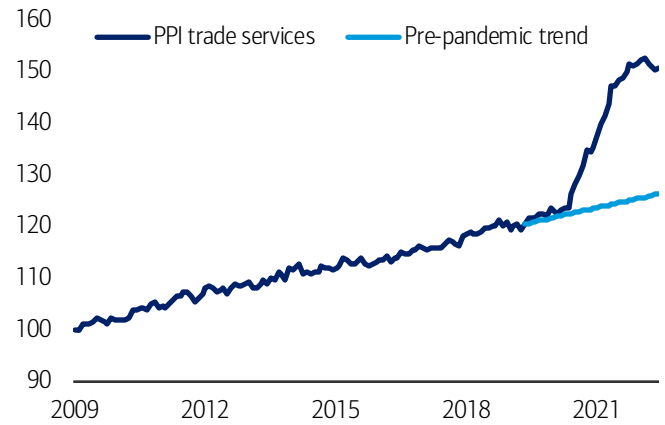


Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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

PPI trade services, a measure of margins, fell in December but remain elevated

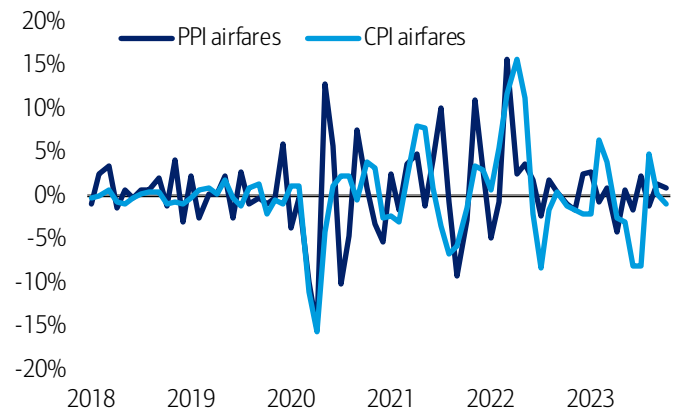


Source: BofA Global Research, Bureau of Labor Statistics, Haver Analytics

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

PPI for airfares was weaker than CPI in August, arguing for a firmer core PCE than core CPI print

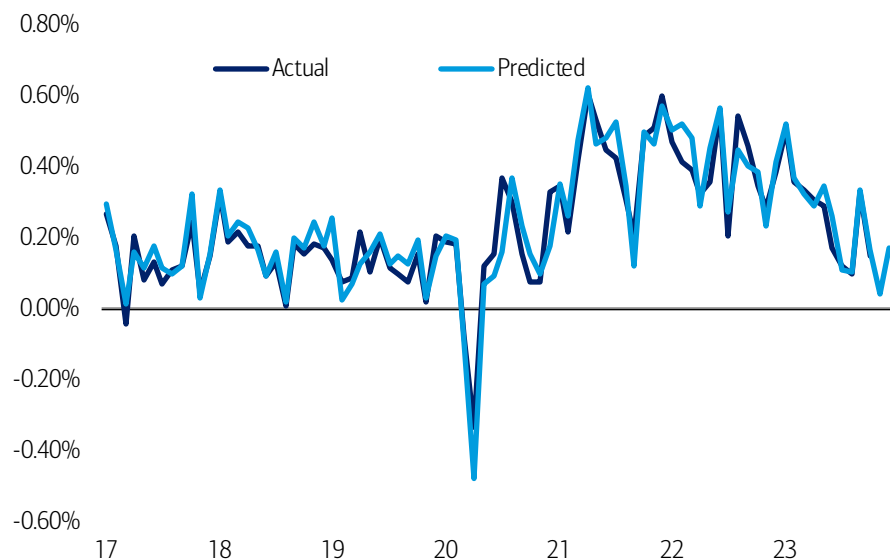


Source: Bureau of Labor Statistics

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Exhibit 5: Predicted and actual core PCE inflation

We expect core PCE inflation to print at 0.2% m/m (0.17% unrounded) in December



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

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Exhibit 6: 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	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23
Apparel % m/m	0.0%	0.0%	-0.4%	0.3%	0.0%	0.0%	0.2%	0.6%	0.0%	0.0%	-0.6%	0.6%
% y/y	0.7%	0.7%	0.8%	1.2%	1.3%	1.5%	1.9%	2.0%	1.9%	2.2%	2.9%	4.2%
Offices of Physicians % m/m	0.0%	0.0%	0.1%	0.0%	0.0%	0.2%	-0.1%	0.1%	0.0%	0.1%	0.1%	-0.4%
% y/y	0.3%	0.4%	0.5%	0.7%	0.8%	0.8%	0.6%	0.7%	0.6%	0.4%	0.3%	0.2%
Home Health Care Services % m/m	0.0%	0.0%	0.4%	0.4%	0.6%	0.3%	0.1%	0.0%	0.7%	0.3%	0.4%	1.0%
% y/y	4.2%	4.4%	4.5%	5.9%	5.7%	5.1%	4.6%	4.4%	4.4%	3.3%	3.1%	2.8%
Hospitals % m/m	0.0%	0.0%	1.0%	-0.3%	0.0%	0.4%	0.0%	0.2%	0.6%	0.2%	0.1%	0.6%
% y/y	2.9%	3.0%	2.8%	2.1%	2.3%	2.5%	2.4%	3.2%	3.4%	2.5%	2.3%	2.2%
Nursing Care Facilities % m/m	0.0%	-0.1%	0.9%	-0.2%	0.4%	1.3%	-0.1%	-0.1%	-0.4%	0.3%	0.6%	1.2%
% y/y	4.0%	4.1%	4.5%	4.9%	5.3%	5.6%	6.1%	6.4%	6.5%	7.0%	6.8%	5.9%
Scheduled Passenger Air Transportation % m/m	-0.9%	-1.3%	7.9%	-1.2%	-4.7%	-1.8%	2.1%	-2.7%	0.3%	4.3%	0.9%	-0.4%
% y/y	2.1%	5.4%	-0.1%	-1.0%	-1.5%	2.0%	-2.2%	1.0%	3.9%	11.3%	26.9%	26.8%
Securities Brokerage Services, Exchange-Listed Equities % m/m	0.0%	0.0%	-4.2%	1.8%	0.0%	1.7%	-5.6%	11.4%	0.4%	-2.1%	2.2%	-7.4%
% y/y	-2.9%	4.4%	2.5%	4.9%	3.3%	2.7%	-9.1%	-3.8%	-13.2%	-9.3%	-10.7%	-9.7%
Securities Brokerage Services, All Other Securities % m/m	0.0%	0.0%	0.3%	-0.1%	0.0%	0.0%	-0.1%	-0.2%	0.1%	0.2%	0.0%	0.1%
% y/y	0.3%	0.4%	0.4%	0.0%	0.1%	0.1%	0.0%	0.1%	0.3%	0.0%	-0.2%	-0.2%
Dealer Transactions/Market Making In Over-the-Counter Equities % m/m	7.4%	1.9%	-0.1%	2.6%	1.5%	1.2%	0.0%	15.5%	-20.1%	-2.3%	8.7%	-2.1%
% y/y	10.4%	-8.7%	-4.2%	8.4%	2.0%	-0.3%	-7.4%	-30.8%	-35.2%	-26.8%	-41.4%	-36.8%
Dealer Transactions, Debt Securities & All Other Trading % m/m	0.2%	4.3%	-1.9%	-0.4%	-5.0%	-1.7%	-0.7%	-6.9%	-1.4%	10.1%	-0.2%	-2.9%
% y/y	-7.3%	-8.0%	-8.2%	-7.4%	-12.0%	-8.2%	2.0%	10.5%	15.0%	-7.9%	4.9%	11.3%
Oth Securities Rel Serv Incl Margin Lending/Mutual Fund Sales % m/m	0.1%	0.1%	-1.5%	0.0%	2.5%	1.7%	0.1%	2.7%	4.1%	-1.3%	4.8%	2.2%
% y/y	16.4%	16.3%	37.3%	53.0%	52.8%	70.9%	65.2%	64.7%	103.1%	103.1%	106.3%	91.6%
Portfolio Management % m/m	2.2%	-1.7%	-3.4%	-0.7%	1.3%	2.8%						
Trust Services % m/m	-0.1%	-7.8%	0.0%	0.0%	5.1%	0.0%	0.0%	2.6%	0.0%	0.0%	3.5%	0.1%
% y/y	2.9%	3.0%	5.7%	5.7%	5.9%	-8.7%	-8.6%	-8.6%	-10.6%	-10.6%	-10.7%	-12.3%
Dir Property/Casualty Ins Carriers, Homeowner Insurance % m/m	0.1%	-0.1%	0.1%	3.1%	0.2%	0.3%	0.9%	0.5%	1.2%	1.0%	0.2%	-0.1%
% y/y	7.6%	8.0%	8.4%	7.3%	4.8%	4.8%	4.4%	3.7%	3.6%	2.3%	1.8%	1.8%
Employment Placement Services % m/m	0.2%	0.4%	-0.2%	0.4%	-1.1%	2.2%	-0.5%	-1.0%	2.4%	1.2%	-2.5%	-0.1%
% y/y	1.3%	1.5%	0.4%	0.5%	2.3%	2.4%	1.4%	2.6%	3.2%	3.0%	2.0%	3.9%

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

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Exhibit 7: PPI heat map (% m/m, NSA unless otherwise listed)

Below is a heat map of the PPI data. Headline PPI fell by 0.1% m/m in December

Weight	Category	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23
100.0	Headline PPI (SA)	-0.13%	-0.09%	-0.44%	0.41%	0.72%	0.53%	0.08%	-0.33%	0.20%	-0.39%	-0.03%	0.43%
88.2	Core PPI (SA)	-0.01%	0.02%	-0.01%	0.20%	0.18%	0.52%	0.06%	0.17%	0.20%	-0.01%	0.18%	0.22%
68.5	Core core PPI (SA)	0.22%	0.06%	0.07%	0.30%	0.21%	0.22%	0.28%	0.00%	0.15%	0.14%	0.29%	0.52%
1.1	Farm Products	-1.54%	2.88%	-2.95%	-1.84%	-3.04%	-2.87%	1.60%	-5.45%	1.63%	-0.27%	-1.68%	-5.54%
5.4	Processed Foods and Feeds	-0.55%	-0.91%	-0.19%	0.50%	0.46%	-0.17%	-0.30%	0.23%	-0.47%	0.63%	-1.01%	0.84%
0.2	Textile Products and Apparel	-0.48%	-0.25%	0.37%	0.94%	-0.61%	0.18%	-0.10%	-0.38%	-0.22%	-0.07%	-0.33%	-0.02%
0.0	Hides, Skins, Leather, & Related Products	-0.17%	0.33%	-1.19%	0.14%	0.55%	0.88%	-0.68%	0.11%	0.10%	0.16%	0.06%	0.67%
5.9	Fuels and Related Products and Power	-5.87%	-3.91%	-5.67%	2.28%	8.15%	1.99%	1.19%	-4.63%	-1.03%	-3.41%	-2.50%	3.30%
2.9	Chemicals and Allied Products	-0.67%	-0.71%	0.41%	0.08%	-0.34%	-1.32%	-1.03%	-0.86%	0.10%	-0.75%	0.38%	0.62%
0.7	Rubber and Plastic Products	-0.04%	0.19%	0.02%	-0.18%	-0.15%	-0.52%	-0.62%	-0.24%	0.14%	-0.25%	-0.29%	-0.26%
0.1	Lumber and Wood Products	0.06%	-0.79%	-0.79%	0.16%	-1.66%	0.89%	-0.60%	-0.20%	-0.42%	-0.61%	0.03%	-0.51%
0.9	Pulp, Paper, and Allied Products	-0.41%	-0.25%	-0.58%	0.22%	0.18%	-0.25%	-0.09%	-0.14%	-0.13%	-0.24%	-0.01%	0.22%
1.1	Metals and Metal Products	1.78%	0.09%	-0.78%	-0.80%	-0.60%	-1.47%	-0.89%	0.47%	0.76%	0.88%	0.60%	0.94%
4.6	Machinery and Equipment	0.03%	0.08%	0.13%	0.13%	0.20%	0.34%	0.12%	0.07%	0.38%	0.39%	0.26%	1.26%
0.9	Furniture and Household Durables	-0.25%	0.19%	-0.34%	0.32%	0.08%	0.07%	0.01%	0.13%	-0.02%	0.11%	0.43%	0.03%
0.2	Nonmetallic Mineral Products	0.03%	0.17%	0.08%	0.31%	0.30%	0.11%	0.21%	0.26%	-0.17%	0.31%	0.94%	2.41%
5.0	Transportation Equipment	-0.01%	0.11%	0.39%	0.06%	0.03%	0.17%	0.00%	0.16%	0.10%	0.19%	0.20%	0.41%
1.5	Miscellaneous Products	0.44%	0.37%	0.33%	0.22%	0.48%	0.29%	0.04%	1.02%	-0.01%	0.22%	0.43%	1.12%
5.2	Transportation Services	-0.46%	-0.56%	1.30%	-0.25%	-0.40%	0.21%	0.37%	-0.73%	-1.49%	-0.26%	-0.76%	0.43%
0.0	Services Related to Transportation Activities	0.77%	-0.34%	1.19%	0.31%	-3.99%	0.39%	1.21%	-0.04%	-1.25%	-2.01%	-0.61%	-0.68%
0.0	Warehousing, Storage, & Related Services	-0.10%	-0.62%	-0.32%	1.96%	-1.09%	1.49%	-1.28%	-2.20%	0.06%	-0.32%	2.85%	2.77%
0.7	Publishing Sales, excluding Software	1.20%	0.29%	0.15%	0.20%	-0.41%	0.20%	0.42%	0.06%	0.40%	0.50%	0.61%	1.40%
1.8	Software Publishing	2.14%	-1.82%	1.96%	0.39%	1.02%	-0.14%	0.50%	0.53%	-0.20%	0.02%	1.05%	1.56%
0.1	Network Compensation from Broadcast & Cable Telev	0.00%	0.00%	0.00%	0.00%	0.19%	0.00%	-0.29%	0.20%	0.00%	1.14%	-0.82%	0.25%
0.0	Advertising Space and Time Sales	0.59%	1.79%	1.07%	-0.40%	-1.88%	-3.98%	-0.94%	0.26%	4.60%	-0.46%	-1.67%	-1.88%
3.1	Telecommunication, Cable, & Internet User Service	0.53%	0.09%	0.04%	-0.86%	0.53%	-0.11%	0.13%	-0.12%	0.18%	0.69%	0.14%	1.34%
0.7	Data Processing and Related Services	0.30%	0.25%	0.23%	-0.20%	0.13%	0.32%	0.27%	0.10%	-0.05%	0.26%	0.37%	0.17%
1.6	Credit Intermediation Services	-0.99%	2.80%	-1.48%	0.05%	1.93%	-1.47%	1.15%	-0.51%	2.91%	-3.58%	3.20%	5.44%
3.1	Investment Services	1.41%	-0.58%	-2.14%	0.05%	1.35%	1.83%	1.71%	0.54%	1.32%	-1.52%	2.39%	1.64%
3.3	Insurance and Annuities	0.05%	0.02%	0.02%	0.30%	0.18%	0.02%	1.03%	0.10%	0.29%	0.17%	0.03%	1.16%
2.4	Real Estate Services	0.76%	0.90%	-1.40%	0.99%	1.94%	0.14%	1.16%	0.52%	1.43%	-0.90%	-2.16%	0.72%
0.3	Rental & Leasing Of Goods	-0.67%	-2.75%	1.78%	-2.01%	-0.77%	1.41%	1.86%	-0.80%	-0.63%	1.44%	0.52%	-1.40%
3.4	Professional Services	0.36%	-0.04%	-0.48%	0.99%	-0.39%	0.41%	0.46%	-0.14%	0.57%	-0.24%	1.04%	2.14%
0.1	Employment Services	0.17%	0.13%	0.18%	-0.33%	-0.32%	0.07%	-0.18%	-0.08%	0.44%	0.55%	-0.27%	0.22%
0.1	Travel Arrangement Services	-0.41%	-0.04%	-0.72%	-0.46%	2.25%	4.38%	0.55%	0.19%	-1.06%	-0.34%	-0.80%	0.12%
0.1	Selected Security Services	2.37%	-0.20%	0.81%	-0.12%	2.61%	0.17%	0.06%	2.07%	0.07%	0.33%	0.08%	1.13%
0.1	Cleaning & Building Maintenance Services	0.03%	0.13%	-0.08%	-2.38%	0.04%	-0.06%	0.01%	-0.17%	0.87%	0.13%	-0.07%	0.74%
0.2	Waste Collection & Remediation Services	-0.95%	0.53%	0.02%	0.84%	1.31%	-0.09%	-0.35%	-0.23%	1.19%	2.02%	2.38%	1.55%
16.6	Health Care Services	0.02%	-0.04%	0.61%	0.35%	0.07%	0.63%	-0.01%	0.13%	0.29%	0.25%	0.46%	0.47%
1.3	Accommodation Services	-6.43%	-2.64%	-1.19%	-1.21%	-3.30%	0.20%	7.22%	-2.76%	-0.79%	8.31%	1.92%	-4.86%
0.5	Food & Beverage for Immediate Consumption Service	0.05%	0.30%	0.78%	0.14%	0.75%	0.18%	0.14%	0.01%	0.36%	0.15%	0.61%	0.92%
0.5	Repair & Maintenance Services	0.21%	0.42%	-0.09%	0.50%	1.33%	0.38%	-0.03%	-0.11%	0.89%	0.95%	0.47%	0.83%
0.9	Entertainment Services	2.06%	0.98%	1.70%	0.24%	-1.06%	-0.09%	-0.04%	-0.90%	-0.53%	0.29%	0.70%	2.05%
10.2	Wholesale Trade Services	-0.85%	0.70%	1.00%	-0.32%	-0.73%	3.65%	-1.30%	0.05%	1.67%	-0.02%	-0.39%	-0.29%
9.5	Retail Trade Services	-0.91%	-1.91%	-0.33%	0.52%	1.09%	-1.38%	-0.46%	0.25%	-0.66%	0.36%	0.67%	-0.74%
0.7	Mining Services	0.18%	1.20%	-0.73%	0.81%	-0.29%	0.05%	-0.07%	-0.52%	-0.68%	1.10%	0.48%	0.51%
2.7	Construction	0.08%	-0.13%	-0.29%	0.05%	0.08%	-1.08%	0.03%	0.24%	-0.16%	0.14%	0.04%	1.77%

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

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