WELLS FARGO

Economic Indicator — November 30, 2023

Moderation in Personal Spending Amid More Cooling in Prices

Summary

Today's personal income and spending report shows consumers are throttling back. Not only are households spending less, but also the composition of outlays is tilting in a way that suggests a more budget-conscious mindset even as income is holding up better than first reported.

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U.S. Personal Income & Spending: October 2023

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Personal Income (MoM)	0.1	0.2	1.0	0.5	0.5	0.2	0.3	0.2	0.3	0.5	0.4	0.2
Personal Income (YoY)	4.6	4.5	5.8	5.7	5.8	5.7	5.6	5.4	4.9	4.8	4.8	4.5
Personal Income, Ex. Transfers (MoM)	0.1	0.2	1.2	0.5	0.6	0.3	0.3	0.3	0.4	0.6	0.6	0.3
Wages & Salaries Income (MoM)	-0.1	0.0	1.6	0.6	0.6	0.4	0.4	0.5	0.4	0.5	0.5	0.1
Personal Spending (MoM)	-0.1	0.3	1.6	0.4	-0.1	0.4	0.2	0.4	0.7	0.4	0.7	0.2
Personal Spending (YoY)	6.9	6.8	7.9	7.6	6.3	6.1	5.9	5.3	6.1	5.6	5.7	5.3
Personal Spending (% Change from Jan-20)	20.8	21.1	23.0	23.5	23.4	23.9	24.2	24.8	25.7	26.1	27.1	27.3
Durable Goods Spending (MoM)	-2.8	-0.4	5.2	-0.5	-1.6	0.8	0.9	-0.4	0.6	-0.6	1.1	-0.5
Nondurable Goods Spending (MoM)	-0.5	-0.8	1.1	0.7	-1.0	0.9	-0.3	0.4	0.6	1.4	0.5	0.0
Services Spending (MoM)	0.5	0.8	1.1	0.4	0.5	0.3	0.3	0.6	0.8	0.2	0.7	0.4
Real Disposable Personal Income (MoM)	0.0	0.2	2.1	0.3	0.4	0.2	0.3	-0.1	-0.1	0.0	0.0	0.3
Real Disposable Personal Income (YoY)	-1.6	-0.9	3.2	3.5	4.4	4.5	5.0	5.3	4.3	3.9	3.8	3.9
Real Personal Spending (MoM)	-0.3	0.1	1.0	0.1	-0.2	0.1	0.1	0.3	0.6	0.0	0.3	0.2
Real Personal Spending (YoY)	0.9	1.3	2.3	2.3	1.7	1.6	1.8	2.1	2.6	2.2	2.2	2.2
PCE Deflator (YoY)	5.9	5.4	5.5	5.2	4.4	4.4	4.0	3.2	3.4	3.4	3.4	3.0
Core PCE Deflator (YoY)	5.1	4.9	4.9	4.8	4.8	4.8	4.7	4.3	4.3	3.8	3.7	3.5
Personal Saving Rate (%)	3.3	3.4	4.4	4.7	5.2	5.2	5.3	4.8	4.2	4.2	3.7	3.8

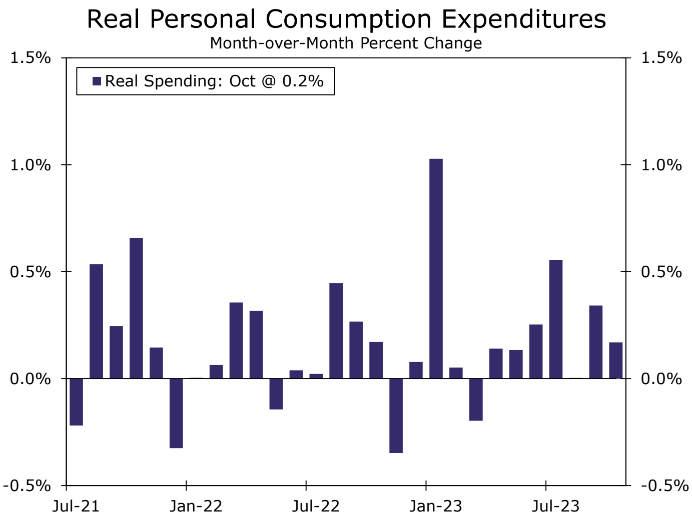
Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

Source: U.S Department of Commerce and Wells Fargo Economics

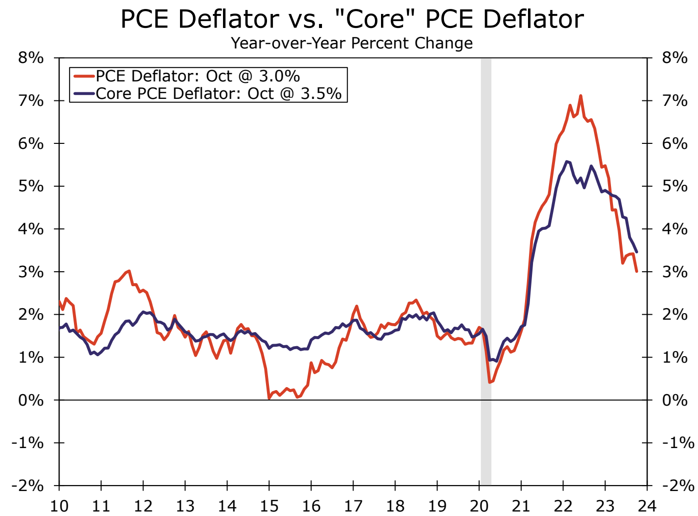
The Porridge is Still a Bit Too Hot, but Definitely Cooling

Consumer spending lost a bit of momentum in October but continued to grow according to the latest personal income and spending report. The staying power of the consumer remains a front-of-mind consideration for Fed policymakers and financial markets alike these days amid a rising sense that the next rate adjustment could be down rather than up. It is well understood that inflation needs to be coming down closer to the Fed's target of 2% before it can initiate such a pivot. This cycle has proven that it's tough to get businesses to lower prices when consumers are still aggressively spending, that may be changing.

It is fair to say that today's report showed incremental progress on both fronts in October. Real personal spending slowed from a 0.3% increase in September to just 0.2% in October (chart). Meanwhile, the year-ago rate of core PCE inflation came down to 3.5% from 3.7% a month earlier (chart), which was expected. Headline inflation slowed to 3.0% from 3.4% the month prior, and this was a bit more of a cooling than was expected.



Source: U.S. Department of Commerce and Wells Fargo Economics

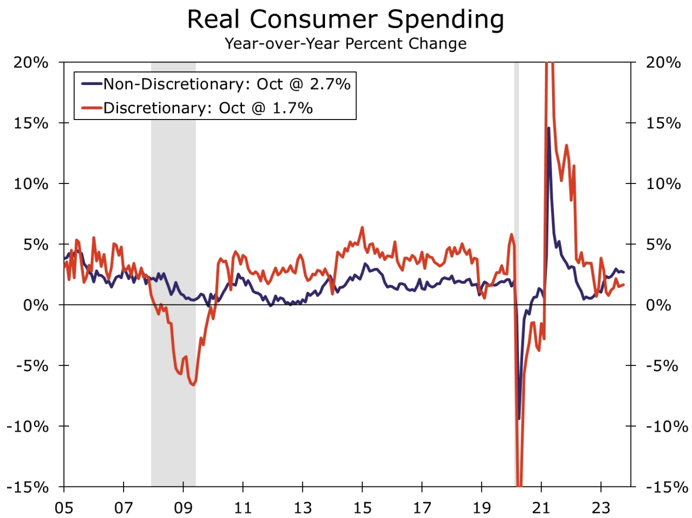


Source: U.S. Department of Commerce and Wells Fargo Economics

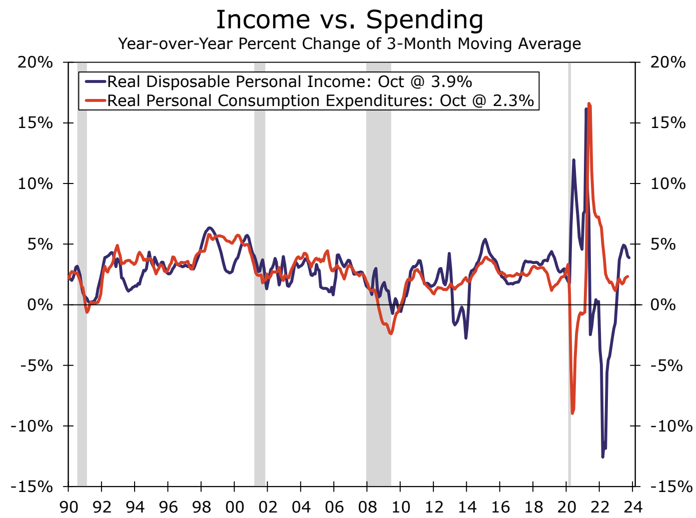
Spenders' Discretion

Our estimate of inflation-adjusted 'non-discretionary' spending growth has started to outpace 'discretionary' consumption, a pattern that may suggest a more budget-conscious mindset among consumers and indicate early-signs of moderation in overall spend. As seen in the nearby chart, the last time this happened on a sustained basis was at the start of the 2008 recession, non-withstanding coming out of the depths of the pandemic.

Getting into the details of consumption, real durables slipped 0.3% last month amid a pullback in purchases of autos and furnishings specifically. Nondurable goods spending rose at a 0.3% pace, as a rebound in gasoline sales offset weakness in clothing and other nondurables. Services continued its steady gain, rising 0.2% in October, marking the sixth straight gain and 20th monthly increase in 21 months. Recreation services have been a source of weakness more recently, slipping for the second straight month as have financial services activities, which declined for the third month in October.



Source: U.S. Department of Commerce and Wells Fargo Economics



Source: U.S. Department of Commerce and Wells Fargo Economics

While overall consumption has remained remarkably resilient over the course of this year, we remain cautious on the trajectory of the consumer going forward. Particularly in the event that the labor market shows more considerable signs of moderation. To that end, in separately released data this morning it was reported that 1.9 million people continued to seek unemployment insurance in the week ending November 18, marking the highest since late 2021. Even as initial claims for jobless benefits remain well within recent ranges, the recent uptick in the continuing claims trend indicates jobs are becoming increasingly challenging to come by for those who are losing them.

Even as the jobs market softens somewhat, income growth has continued. Real disposable personal income, an underlying measure of households' purchasing power, bounced in October rising 0.3%. Income not only rose by the most in five months, but the Q3 data was also revised higher, suggesting income growth has continued to outpace spending at a rapid clip (chart). While excess liquidity and easy access to cheap credit may now be a thing of the past, consumers can continue to grow spending to the extent income growth holds up. The outcome continues to depend on the income.

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