Economics

Economic Indicator — July 26, 2024

To Keep Up Progress on PCE Inflation, Spending Will Have to Cool

Summary

Today's report on June personal income and spending is the last major indicator before next week's Fed meeting and while there is plenty to unpack, there is nothing that compels a rate cut at the July meeting or that prevents one in September.

Economist(s)

Tim Quinlan
Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283

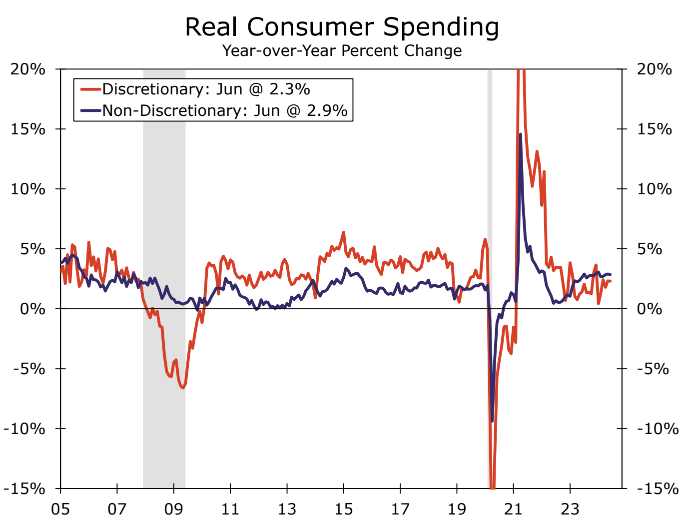
Shannon Seery Grein
Economist | Wells Fargo Economics
shannon.grein@wellsfargo.com | 704-410-0369

U.S. Personal Income & Spending: June 2024

	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Personal Income (MoM)	0.3	0.5	0.4	0.1	0.2	0.3	1.1	0.3	0.5	0.2	0.4	0.2
Personal Income (YoY)	4.9	4.9	4.8	4.3	4.4	4.5	4.6	4.3	4.3	4.4	4.5	4.5
Personal Income, Ex. Transfers (MoM)	0.5	0.6	0.5	0.1	0.3	0.3	0.7	0.1	0.5	0.2	0.4	0.2
Wages & Salaries Income (MoM)	0.6	0.6	0.5	-0.2	0.1	0.4	0.4	0.7	0.6	0.2	0.6	0.3
Personal Spending (MoM)	0.6	0.3	0.7	0.2	0.4	0.6	0.1	0.6	0.7	0.2	0.4	0.3
Personal Spending (YoY)	5.9	5.4	5.5	5.1	5.6	6.0	4.4	4.6	5.4	5.1	5.3	5.2
Durable Goods Spending (MoM)	0.6	-0.6	0.9	-1.0	0.2	1.1	-2.7	0.9	0.1	-0.7	1.5	-0.2
Nondurable Goods Spending (MoM)	0.6	1.4	0.7	-0.1	-0.3	0.2	-0.9	0.1	1.2	0.0	0.0	0.2
Services Spending (MoM)	0.6	0.1	0.7	0.5	0.7	0.6	0.9	0.7	0.6	0.4	0.4	0.4
Real Disposable Personal Income (MoM)	0.0	0.1	-0.1	0.0	0.2	0.2	0.1	-0.1	0.2	-0.1	0.3	0.1
Real Disposable Personal Income (YoY)	4.4	4.1	3.9	3.7	3.9	3.8	1.9	1.4	1.2	0.9	0.9	1.0
Real Personal Spending (MoM)	0.5	-0.1	0.4	0.2	0.4	0.5	-0.3	0.2	0.3	-0.1	0.4	0.2
Real Personal Spending (YoY)	2.5	2.0	2.1	2.1	2.9	3.3	1.9	2.0	2.6	2.4	2.6	2.6
PCE Deflator (YoY)	3.3	3.3	3.4	2.9	2.7	2.6	2.5	2.5	2.7	2.7	2.6	2.5
Core PCE Deflator (YoY)	4.2	3.7	3.6	3.4	3.2	2.9	2.9	2.8	2.8	2.8	2.6	2.6
Personal Saving Rate (%)	4.4	4.5	3.9	3.8	3.7	3.6	4.0	3.7	3.5	3.5	3.5	3.4

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

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



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

Inflation Cooling, Spending is Not

Today's consumer numbers may not be quite as reassuring to those hoping for Fed rate cuts as they first appear. The monthly gains in the headline (+0.1%) and core (+0.2%) PCE deflators offer further evidence that inflation is tracking toward target, but services spending is still too strong.

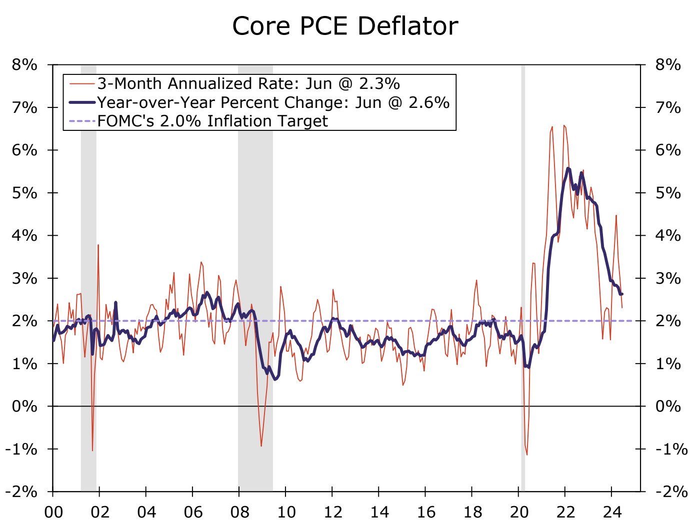
At the start of this year, brisk spending gave businesses little incentive to think twice about raising prices. But consumer spending has downshifted, if only incrementally. Consumer companies have reported how buyers are becoming more selective and price sensitive; there are some indications of that in the economic data, but it is not the slam-dunk case that is so frequently articulated in earnings announcements. One place where it is easy to spot is big-ticket durable goods items where purchases often require financing. Real durable goods spending fell 0.2% in June and is now down in two out of the past three months. Durable goods weakness in the latest month can be attributed to a 2.6% decline in outlays on motor vehicles.

It is more than just the big ticket items, consumers are taking a harder look at spending in other areas such as hotels and restaurants where spending also came down in June.

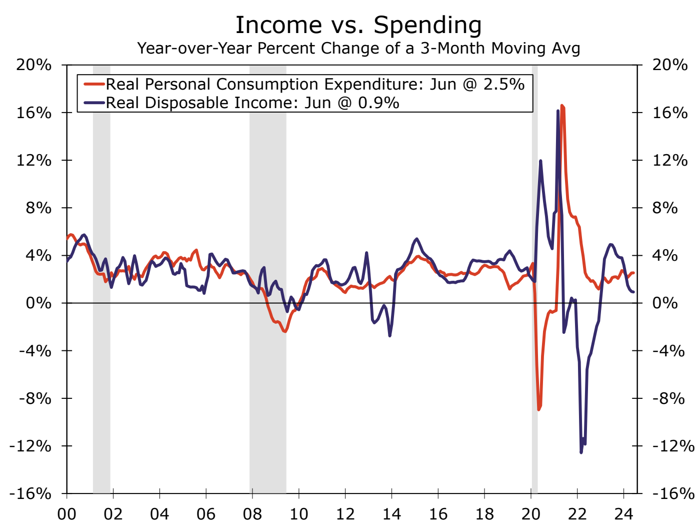
To a degree, this is good news for the Fed because getting consumers to slow their roll is a precursor to bringing down services inflation. After coming in flat in May, the headline PCE deflator rose just 0.1% in June. That is still the second lowest monthly reading this year. The core PCE deflator remains stickier, the 0.2% increase in June puts the three-month annualized rate at 2.0%.

Today's data ultimately confirm that the Q1 bounce in consumer inflation looks to be nothing more than a bump in the road. The core PCE deflator decelerated to a 2.9% annualized rate in Q2 after accelerating to 3.7% in Q1. At the same time, the year-ago pace of inflation continues to drift lower, with core reaching its lowest rate since the first quarter of 2021. The job might not be done on inflation, but with recent data ensuring inflation progress has resumed amid further softening in the labor market materializing, we expect the Fed is poised to loosen policy.

For those looking for another reason on why the Fed may not be so apt to ease policy at next week's meeting, look no further than services sector spending. Households just keep finding ways to sustain spending, and they may not be going out to eat or traveling quite as much, but real services outlays grew 0.2%, the fastest pace in four months. While most of the spending on services goes toward non-discretionary categories such as healthcare and housing, consumers are still spending in other categories too. Real services spending less healthcare and housing rose *more* than broad services, up 0.24%.



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



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

Households are simply choosing to save less in order to keep spending. Personal income rose 0.2% last month, less than the rise in spending (+0.3%), which caused the saving rate to slide to 3.4%. June not only marked the lowest saving rate of this year, but last year as well. While the saving rate looks to have bottomed at 2.7% two-years-ago in June 2022, the recent step lower reminds us not to underestimate today's consumer.

Personal income has still taken on greater importance in terms of households purchasing power as pandemic-era support factors of excess liquidity and easy access to relatively-cheap credit are now a thing of the past. After posting the largest one-month gain since early last year, real disposable personal income slowed further in June advancing 0.1%--roughly in line with its average over the past year.

Spending growth in June combined with upward revisions to May and downward revisions to April moved most of the growth into the back half of the quarter, and this sets us up for some pretty decent growth in Q3 despite not yet having any actual data. In other words, even if we were to see growth flatline, real personal consumption expenditures would rise at a 1.1% annualized rate. Our preliminary estimate is for real spending to rise at just over a 2% annualized rate in Q3. Is there really any stopping this consumer?

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Jeremiah Kohl	Economic Analyst	212-214-1164	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Ali Hajibeigi	Economic Analyst	212-214-8253	Ali.Hajibeigi@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures