

Economic Indicator — February 28, 2025

Consumer Retrenchment in Goods Spending, Inflation Mild

Summary

Inflation rose at only a mild pace in January and income rose more than twice the expected amount. But inflation-adjusted spending dropped half a percentage point, the biggest monthly retrenchment in almost four years. A pullback in autos and other goods was mostly to blame.

Economist(s)

Tim Quinlan

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

Shannon Grein

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

U.S. Personal Income & Spending: January 2025

	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Personal Income (MoM)	0.4	0.6	0.1	0.3	0.2	0.2	0.1	0.3	0.6	0.3	0.4	0.9
Personal Income (YoY)	5.9	5.9	5.7	5.5	5.4	5.3	5.0	4.8	5.2	5.1	5.1	4.6
Personal Income, Ex. Transfers (MoM)	0.3	0.6	0.1	0.3	0.1	0.1	0.1	0.2	0.6	0.4	0.4	0.7
Wages & Salaries Income (MoM)	1.1	0.8	-0.3	0.2	0.0	0.1	0.3	0.3	0.5	0.6	0.4	0.4
Personal Spending (MoM)	0.5	0.7	0.3	0.5	0.3	0.6	0.2	0.7	0.4	0.5	0.8	-0.2
Personal Spending (YoY)	4.8	5.6	5.2	5.5	5.4	5.4	5.3	5.4	5.6	5.7	5.8	5.6
Durable Goods Spending (MoM)	0.7	0.5	-0.5	1.1	-0.3	1.2	-1.0	1.7	0.1	2.3	1.3	-3.0
Nondurable Goods Spending (MoM)	0.1	1.3	0.0	0.3	-0.1	0.8	-0.4	0.8	-0.2	0.0	1.2	-0.2
Services Spending (MoM)	0.7	0.6	0.5	0.5	0.4	0.4	0.6	0.5	0.7	0.4	0.7	0.3
Real Disposable Personal Income (MoM)	0.1	0.3	-0.1	0.3	0.0	-0.1	-0.1	0.1	0.4	0.2	0.2	0.6
Real Disposable Personal Income (YoY)	3.3	3.1	2.8	2.8	2.7	2.6	2.4	2.4	2.5	2.3	2.2	1.8
Real Personal Spending (MoM)	0.2	0.4	0.0	0.5	0.1	0.4	0.1	0.5	0.2	0.4	0.5	-0.5
Real Personal Spending (YoY)	2.1	2.7	2.4	2.8	2.9	2.8	2.9	3.2	3.2	3.2	3.1	3.0
PCE Deflator (YoY)	2.6	2.8	2.7	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5
Core PCE Deflator (YoY)	2.9	3.0	2.9	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.6
Personal Saving Rate (%)	5.4	5.2	5.1	4.9	4.8	4.3	4.2	3.8	4.0	3.8	3.5	4.6

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

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

Sharp Pullback in Goods Spending

January's personal income and spending report was full of surprises. Income came in hot growing 0.9% which was more than double the expected gain of 0.4%. Spending fell on both a real and nominal basis. The decline is the first in 22 months though it does come on the heels of upward revisions to December data.

We have been cautioning about some potential pull-forward in goods spending as consumers try to squeeze in big-ticket purchases *before* tariffs go into effect. At some point we feared there would be payback. January is sooner than we would have expected to see it. Yet, how else to explain the fact that among the categories posting a decline in January seven out of the top eight decliners were goods categories.

The bottom dropped out beneath motor vehicles & parts spending with a \$41.1 billion dollar decline. For most households, this is the definition of a major outlay and the category had seen decent strength rising 3 out of the past 5 months. Recreational goods and RVs made up the second largest decliner in January spending followed by other non-durable goods. Other goods categories in the red included clothing & footwear as well as food & beverages. In fact, the only goods category to post a gain was gasoline and other energy goods, a mostly price-related development.

The pop in overall income is partially attributable to one-off factors that typically impact the start of the year. The first is the annual cost of living adjustment (COLA) to social security, which drove this portion of income up 2.8% in January, and accounted for two-tenths of the overall gain in income. Strength can also be traced to receipts on assets and proprietors income.

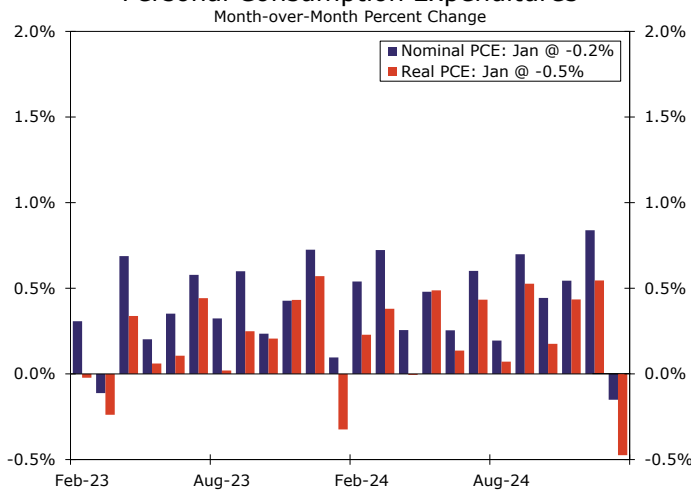
Yet all of the strength can't be talked away. Wages & salaries, which comprises a bulk of households income and thereby spending power were also up a strong 0.4%, adding to a string of solid gains the past three months consistent with a sturdy labor market. All told, in adjusting for inflation and taxes, real disposable personal income rose 0.6% in January, or at the fastest pace in a year.

Inflation is still a challenge not just for the Fed but for consumers looking to spend on discretionary items. Earlier this month we learned the [CPI surprised to the upside](#) and this morning's data show the Fed's preferred measure of inflation, the PCE deflator, rose 0.3%, which was enough to drive the year-over-year rate lower to 2.5%. Goods inflation (+0.5%) outpaced services inflation (+0.2%) for the first time in at least six months. The core measure (excluding food and energy) was up a similar amount in January, which drove the annual rate down to 2.6% from an upwardly revised 2.9% in December. On a three-month average annualized basis, core inflation sits at 2.4% today.

While risks today look skewed to the upside around inflation, the pricing environment remains highly uncertain. Consumers are price fatigued, and major retailers have acknowledged this. Tariffs are the most obvious threat to the pricing environment and the last few tenths to the Fed's 2% target remain in the crosshair.

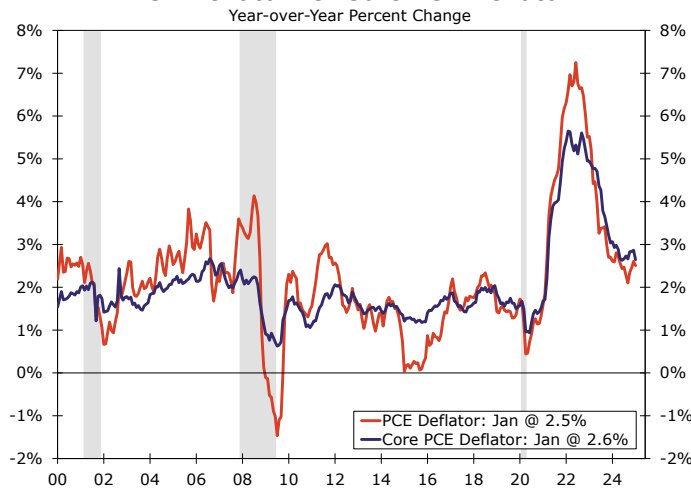
Consumer spending has been a stalwart driver of economic growth throughout the current expansion. Yesterday's Q4 GDP revisions lifted the annualized rate of consumer spending to a blistering 4.2%, the second fastest quarterly expansion in consumer spending in the past three years. Today's report does not fundamentally alter our thinking on the sustainability of consumer spending though it does offer a look at what consumer life might look like in a world where goods spending is put on ice.

Personal Consumption Expenditures



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

PCE Deflator vs. Core PCE Deflator



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

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 Woessner	Economic Analyst	704-410-2911	Aubrey.B.Woessner@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 Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report. All reports published by the Economics Group are disseminated and available to all clients simultaneously through electronic publication to our public website. Clients may also receive our reports via third party vendors. We are not responsible for the redistribution of our reports by third-party aggregators. Any external website links included in this report are not maintained, controlled or operated by WFBNA. WFBNA does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of WFBNA.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report. Neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company.

You are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for your own use and for no other purpose. Without the prior written consent of WFBNA, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. "AI Technologies" means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment. In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by WFBNA, its affiliates or one or more third parties (collectively, "Protected Content"). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other than fair use requires permission from WFBNA or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. All rights not expressly granted herein are reserved by WFBNA or the third-party providers from whom WFBNA has obtained the applicable information. © 2025 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE