Economic Indicator — May 30, 2025

Slower Spending Amid a Pullback in Goods Outlays in April

Summary

Consumers cut back on goods outlays in April after pulling forward demand in prior months, which was offset by sustained demand for services, mostly housing, utilities and healthcare. At this early stage, inflation appears largely un-impacted by tariffs. Social Security payments boosted income.

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: April 2025

	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Personal Income (MoM)	0.3	0.2	0.2	0.1	0.3	0.7	0.3	0.4	0.5	0.8	0.7	0.8
Personal Income (YoY)	5.5	5.4	5.3	5.0	4.8	5.2	5.1	5.2	4.3	4.7	4.8	5.5
Personal Income, Ex. Transfers (MoM)	0.3	0.1	0.1	0.1	0.2	0.7	0.4	0.4	0.4	0.4	0.6	0.4
Wages & Salaries Income (MoM)	0.2	0.0	0.1	0.3	0.3	0.7	0.7	0.5	0.2	0.5	0.5	0.5
Personal Spending (MoM)	0.5	0.3	0.6	0.2	0.7	0.4	0.6	0.9	-0.1	0.4	0.7	0.2
Personal Spending (YoY)	5.5	5.4	5.4	5.3	5.4	5.5	5.7	5.8	5.6	5.4	5.5	5.4
Durable Goods Spending (MoM)	1.1	-0.3	1.2	-1.0	1.7	0.1	2.3	1.5	-3.9	0.4	3.7	-0.3
Nondurable Goods Spending (MoM)	0.3	-0.1	0.8	-0.4	0.8	-0.2	0.0	1.2	0.2	0.5	-0.4	0.0
Services Spending (MoM)	0.5	0.4	0.4	0.6	0.5	0.6	0.4	0.6	0.4	0.4	0.6	0.4
Real Disposable Personal Income (MoM)	0.3	0.0	-0.1	-0.1	0.1	0.4	0.2	0.1	0.1	0.4	0.7	0.7
Real Disposable Personal Income (YoY)	2.8	2.7	2.6	2.4	2.4	2.5	2.3	2.2	1.3	1.6	2.1	2.9
Real Personal Spending (MoM)	0.5	0.1	0.4	0.1	0.5	0.1	0.4	0.6	-0.5	0.0	0.7	0.1
Real Personal Spending (YoY)	2.8	2.9	2.9	2.9	3.2	3.1	3.1	3.1	3.0	2.7	3.1	3.2
PCE Deflator (YoY)	2.6	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.5	2.6	2.3	2.1
Core PCE Deflator (YoY)	2.7	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.7	2.9	2.7	2.5
Personal Saving Rate (%)	4.9	4.8	4.3	4.2	3.8	4.1	3.9	3.5	4.1	4.4	4.3	4.9

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

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

In All Fairness, Social Security Drove the Jump in Income

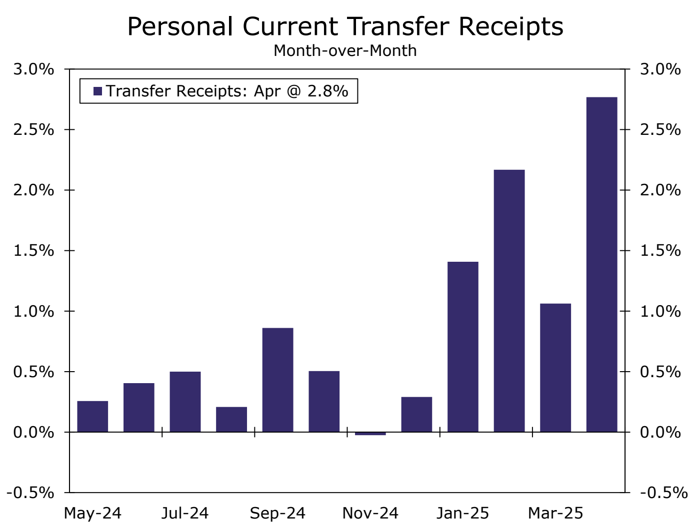
Personal income shot higher in April rising 0.8%, well north of the 0.3% that had been expected. The fact that it comes on the heels of an upwardly revised increase the prior month makes the gain all the more impressive. Looking at the underlying details, a standout was a surge in transfer payments from the U.S. government (chart).

The increase in government social benefits was driven mostly by Social Security payments, reflecting payments associated with the Social Security Fairness Act. This act, passed in December, granted benefits to more than three million retirees from a variety of sectors including teachers, law-enforcement officers and other workers receiving public pensions who had not previously been receiving full benefits for a variety of reasons.

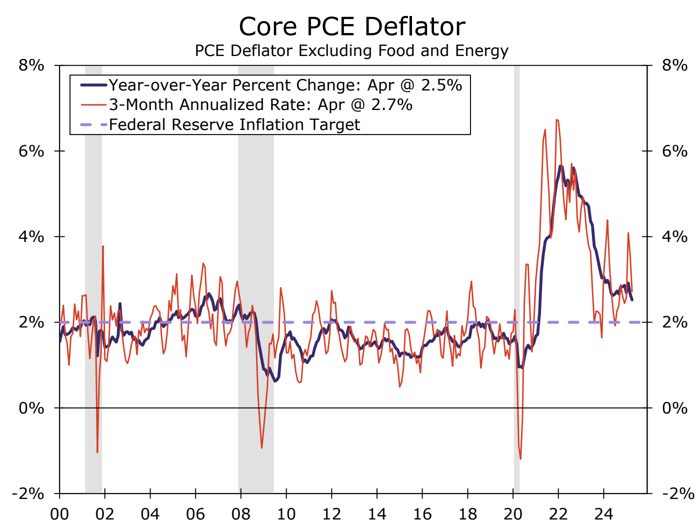
Note that the saving rate jumped to 4.9%, the highest in nearly a year. Take that with a grain of salt as it is driven partly by this one-off jump in income.

Consumer spending rose 0.2% in April, but for the most part, the gains were in services categories, the largest of which were non-discretionary categories such as housing and utilities as well as health care. Consumers cut back on spending in most goods categories in April after having pulled forward demand to get ahead of tariffs earlier in the year. The retreat was led by non-durable goods and motor vehicles as well as clothing and recreational goods. The only two goods categories that were meaningfully positive in April were household furnishings which notched a $1.1 billion gain and gasoline where the gain was mostly attributable to rising prices at the pump.

We got a glimpse of downward revisions in yesterday's second-estimate of first-quarter GDP growth. While overall GDP was revised up, consumer spending was revised down; real personal consumption expenditures advanced at just a 1.2% annualized pace in Q1, or the slowest in a year and a half.



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



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

At this early stage, there is not any particularly compelling evidence tariffs have had a material impact on inflation...yet. Headline PCE rose just 0.1% in April, coming on the heels of last month's goose-egg, the year-over-year measure slipped to just 2.1% from 2.3% in March. Core PCE similarly rose just 0.1% in April putting the annual rate of core PCE inflation at 2.5% (chart). As we think about the rest of the year, we suspect inflation will be characterized by a continued slight cooling in services inflation and a boost from the goods side that will largely be a function of how things play out in the ever-changing world of tariffs.

The big question is whether tariff-induced uncertainty will cause households to stop spending. One way to gauge consumer concern is through the personal saving rate, which measures how much income households have left after spending on traditional goods and services and other outlays, like interest, each month. However the jump this month as we mentioned is a little suspect due to the jump in social security payments. In the absence of that income jolt, the saving rate would remain near the lower-end of its recent range and well below pre-pandemic averages. Overall the household sector remains in a sturdy financial position helping mitigate recent uncertainty, but we suspect household will remain very price sensitive in coming months.

Earlier this week we learned consumers grew less pessimistic in May amid a deescalation in the trade war. Consumer optimism is very much tied to the ebbs and flow of the trade war, but it's a bit too early to determine if actual spending habits are. A big theme that stood out to us from what consumers are saying is that while they're increasingly worried about the ability to afford things, they're not yet overly concerned about their employment situations. This may hold back a more pronounced slowdown in spending, for now.

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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
Azhin Abdulkarim	Economic Analyst	212-214-5154	Azhin.Abdulkarim@wellsfargo.com
Coren Miller	Administrative Assistant	704-410-6010	Coren.Miller@wellsfargo.com

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