

Economic Indicator — June 27, 2025

Consumer Resilience Wearing Thin

Summary

The May personal income & spending report brought weakness and revisions that suggest some lost-swagger among the consumer. While inflation is a bit less benign than it has been in recent months, if you look closely you'll see signs of tariff-price pressure already appearing.

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U.S. Personal Income & Spending: May 2025												
	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Personal Income (MoM)	0.2	0.2	0.1	0.3	0.7	0.3	0.4	0.5	0.7	0.6	0.7	-0.4
Personal Income (YoY)	5.4	5.3	5.0	4.8	5.2	5.1	5.2	4.3	4.6	4.7	5.3	4.5
Personal Income, Ex. Transfers (MoM)	0.1	0.1	0.1	0.2	0.7	0.4	0.4	0.4	0.4	0.6	0.3	0.0
Wages & Salaries Income (MoM)	0.0	0.1	0.3	0.3	0.7	0.7	0.5	0.2	0.5	0.5	0.4	0.4
Personal Spending (MoM)	0.3	0.6	0.2	0.7	0.4	0.6	0.9	-0.2	0.3	0.7	0.2	-0.1
Personal Spending (YoY)	5.4	5.4	5.3	5.4	5.5	5.7	5.8	5.5	5.3	5.2	5.2	4.5
Durable Goods Spending (MoM)	-0.3	1.2	-1.0	1.7	0.1	2.3	1.5	-3.9	0.3	3.8	0.4	-1.8
Nondurable Goods Spending (MoM)	-0.1	0.8	-0.4	0.8	-0.2	0.0	1.2	0.2	0.5	-0.4	0.0	-0.2
Services Spending (MoM)	0.4	0.4	0.6	0.5	0.6	0.4	0.6	0.3	0.3	0.5	0.2	0.1
Real Disposable Personal Income (MoM)	0.0	-0.1	-0.1	0.1	0.4	0.2	0.1	0.1	0.3	0.6	0.6	-0.7
Real Disposable Personal Income (YoY)	2.7	2.6	2.4	2.4	2.5	2.3	2.2	1.3	1.5	1.9	2.7	1.7
Real Personal Spending (MoM)	0.1	0.4	0.1	0.5	0.1	0.4	0.6	-0.6	-0.1	0.7	0.1	-0.3
Real Personal Spending (YoY)	2.9	2.9	2.9	3.2	3.1	3.1	2.9	2.5	2.8	2.9	2.9	2.2
PCE Deflator (YoY)	2.4	2.5	2.3	2.1	2.3	2.5	2.6	2.6	2.7	2.3	2.2	2.3
Core PCE Deflator (YoY)	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.7	2.9	2.7	2.6	2.7
Personal Saving Rate (%)	4.8	4.3	4.2	3.8	4.1	3.9	3.5	4.2	4.4	4.4	4.9	4.5

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

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

Forget What You Thought You Knew About the Consumer

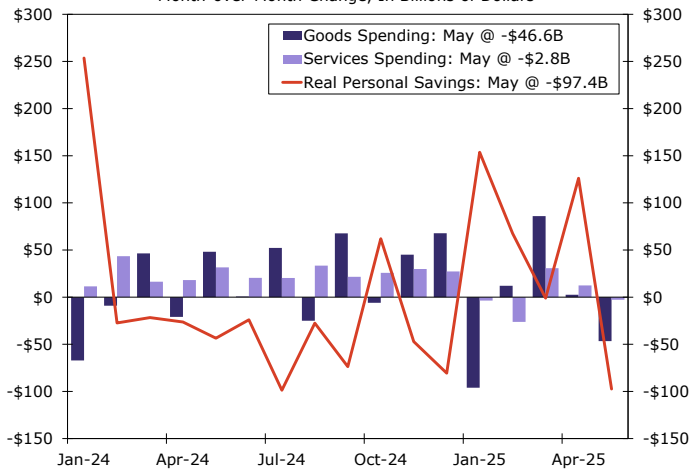
Real consumer spending fell 0.3% in the second month of the second quarter and that development comes on the heels of a sharp downward revision to first quarter consumer spending in yesterday's third-look at GDP. This may be a bit short of a seismic change, but it completely changes the narrative on the health of the consumer and reconciles the head-scratching disparity between plunging confidence and a swaggering consumer unencumbered by tariffs or a weakening labor market. The narrative of an unshakable consumer was never quite accurate. Some of that message was already revealed in yesterday's GDP revisions which showed consumer spending is now estimated to have increased at a limping-along pace of just 0.5% compared to a more jaunty 1.8% pace in the initial estimate. Revisions were particularly hard on services where the pace of spending slowed to 0.6% from a first estimate of 2.4%.

Today's report gets into the detail a bit more and what emerges is a consumer whose spending patterns are more closely aligned with the deterioration in consumer sentiment we have seen in other reports. It also turns out that consumers were setting aside more in savings each month, a revelation brought on by the revisions. But as the nearby [chart](#) shows, households dipped into those savings in May (note how the red line comes down sharply). Yet, it bears noting that some of the apparent drop in savings is less a reflection of smashing open the piggy bank and instead simply a pass-through effect from a sharp drop in household income. Mathematically, if your spending goes down, but your income goes down faster, you are saving less. Yet income is down because strange things are afoot this month.

Specifically, the recent data have incorporated changes designated by the Social Security Fairness Act and American Relief Act. This led to a surge in social security and proprietors income in recent months, and now a tumble in May and was responsible for the 0.4% drop in personal income, or the first decline in nearly four years. Excluding social security and proprietors income, personal income would have *risen* closer to 0.2% during the month and importantly, wages & salaries, the bulk of income, was still rather strong rising 0.4% and suggests households still have the means to spend.

Personal Consumption & Savings

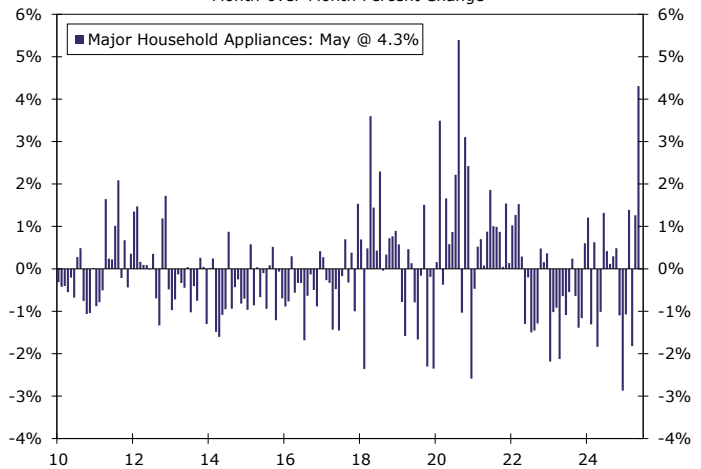
Month-over-Month Change, In Billions of Dollars



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

Price of Major Household Appliances

Month-over-Month Percent Change



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

Got to Move These Refrigerators, Got to Move These Color TVs

The narrative that the economy can absorb tariffs without any meaningful pass-through to prices took a few hits today as well. First, to be clear, on a broad level it is still true that inflation progress remains broadly resilient. The core PCE deflator rose just 0.2% last month and 2.7% over the past year. (Even the hotter-than-expected 0.2% increase reflects a rounding up of a 0.18% monthly increase, not too much higher than our 0.14% estimate.)

Rather what we mean is that in the underlying detail we can already find undeniable evidence of tariff impact. Other than an automobile, an appliance purchase is among the biggest of big-ticket, durable goods purchases many households will make. Consumer prices of major household appliances rose 4.3% in May, marking the second-largest monthly gain on record after the COVID pandemic ([chart](#)). The third-highest gain was in 2018 under Trump's first term amid tariffs on washing machines. One of

the top questions we get these days is "When will the tariffs show up in the inflation data?" This chart shows the answer: we are already seeing it, you just need to know where to look.

While everyone is trying to figure out just how inflationary tariffs will be, the revised recent trend in spending tells us consumers may not be as willing to take prices today. Price fatigue is at last settling in. Survey evidence and anecdotal conversations we have with clients suggest at least some firms are awake to this idea, which is leading them to hesitate on fully passing tariffs on or spreading out the pass through. We still expect consumers will keep spending to the extent they have the means to, but the latest data reveal slightly less momentum behind spending today and a bit more choosy behavior among consumers. Today's data suggest real personal consumption expenditures are tracking to rise closer to a 1.0%-1.5% annualized clip in Q2.

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