



Personal income and spending May 2024

June 28, 2024



Author: Lydia Boussour

Inflation downshifts amid consumer prudence

- ▶ The May personal income and spending report confirmed that a continued downshift in economic activity is underway with cooler consumer spending momentum and easing inflation. Real consumer spending grew 0.3% month over month (m/m) in May, following a 0.1% decline in April, as households showed renewed appetite for goods but remained prudent with their services outlays. With real disposable income rebounding 0.5% m/m, the personal savings rate rose 0.2 percentage points (ppt) to 3.9%, its highest level since January.
- ▶ On an annual basis, real consumer spending growth firmed to 2.4% year over year (y/y) in May and real disposable income growth edged 0.2ppt higher to 1.1% y/y – still the second slowest pace since December 2022. We continue to expect softer consumer spending trends as slower labor market momentum limits income growth and pushes more families to exercise spending restraint amid reduced savings buffers and higher debt burdens. We see consumer spending growing 2.1% this year, after 2.2% growth in 2023.
- ▶ Inflation cooled markedly in May as the headline personal consumption expenditures (PCE) deflator was unchanged on the back of declining gasoline prices and goods prices, and softer price increases in services. The core PCE deflator rose 0.1% m/m (0.08% to be precise) amid cooler transportation, financial services and recreation prices. As a result, headline PCE inflation fell to 2.6% y/y (2.56% to be precise) while core inflation eased 0.2ppt to 2.6% y/y (2.57% to be precise) – its lowest since March 2021.
- ▶ Slower consumer spending growth, reduced markups, declining rent inflation and moderating wage growth will support further disinflation even if a temporary plateau forms around 2.6% to 2.7% during the next two months. We foresee headline and core PCE inflation ending the year around 2.5% y/y.
- ▶ We continue to believe a July onset of the easing cycle would have been optimal given easing inflation and softening labor market conditions, but a September onset is now more likely given policymakers' backward-looking hawkish bias. We expect two 25 basis points (bps) rate cuts in 2024 and 125bps of easing in 2025.



In the details

Real personal outlays rose 0.3% m/m in May, following a 0.1% decline in April.

- ▶ Real durable goods outlays rebounded strongly and registered a 1.1% advance – the largest increase since December 2023 – following a downwardly revised 0.7% contraction in April. The gain was driven by stronger outlays on recreational goods and vehicles (+2.6%) and higher spending on furnishings and household equipment (+0.9%). Meanwhile, motor vehicle purchases (-0.1%) edged slightly lower following a solid gain in April.
- ▶ Real spending on nondurable goods climbed 0.3% – partly reversing their April contraction – as consumers spent more freely on clothing (+1.1%) and at the gas station (+1.3%) amid lower prices at the pump.
- ▶ Services outlays remained sluggish in May, rising only 0.1% for a second consecutive month. Weaker spending at restaurants and hotels (-0.5%) and on housing and utilities (-0.1%) were offset by a strong increase in spending on transportation services (+1.4%). Recreation services (+0.3%), financial services (+0.3%) and health care (+0.2%) all saw modest gains.

Personal income rose a solid 0.5% in May driven by a robust 0.7% advance in wages and salaries, a 0.4% advance on income receipts on assets and a 0.3% advance in government benefits. Encouragingly, disposable income adjusted for inflation rose 0.5%, the strongest increase since January 2023.

On the inflation front, the headline PCE deflator was unchanged on the back of declining gasoline prices and the core PCE deflator rose only 0.1% m/m (0.08% to be precise). As a result, headline PCE inflation fell to 2.6% y/y (2.56% to be precise) while core inflation eased 0.2ppt to 2.6% y/y (2.57% to be precise) – its lowest since March 2021. Importantly, the three-month annualized headline inflation reading fell 1.4ppt to 2.4% while the six-month annualized reading was unchanged at 3%. The three-month annualized core inflation reading eased 0.7 ppt to 2.7% and the six-month annualized reading was also unchanged at 3.2%.

A broad-based downshift in inflationary pressures was visible across both goods and services categories:

- ▶ Durable goods prices fell by the most since September 2001, down 0.8% as prices declined over the month for furniture, recreational goods and other durable goods.
- ▶ Nondurable goods prices declined 0.2% led by lower gas and clothing prices.
- ▶ Services prices rose a muted 0.2% (0.165% to be precise) as falling prices for transportation, recreation, and financial services and insurance were offset by modest gains in housing and utilities, health care and food services.

How EY-Parthenon can help

Strategy consulting services

[Read more](#)

Contacts



Gregory Daco

EY-Parthenon Chief Economist
Strategy and Transactions
Ernst & Young LLP



Lydia Boussour

EY-Parthenon Senior Economist
Strategy and Transactions
Ernst & Young LLP



Marko Jevtic

EY-Parthenon Senior Economist
Strategy and Transactions
Ernst & Young LLP



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About EY-Parthenon

EY-Parthenon teams work with clients to navigate complexity by helping them to reimagine their eco-systems, reshape their portfolios and reinvent themselves for a better future. With global connectivity and scale, EY-Parthenon teams focus on Strategy Realized – helping CEOs design and deliver strategies to better manage challenges while maximizing opportunities as they look to transform their businesses. From idea to implementation, EY-Parthenon teams help organizations to build a better working world by fostering long-term value. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

© 2024 Ernst & Young LLP.

All Rights Reserved.

CS no. 2407-4565112

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com

The views reflected in this article are the views of the author(s) and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization.

[See more on Macroeconomic insights](#)