Personal income and spending August 2024

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Author: **Lydia Boussour**

‘Anti-exuberance’ and disinflation

- Real consumer spending grew a mere 0.1% month over month (m/m) in August, following a 0.4% gain in July, as households remain smartly prudent in the face of high prices and rates and cooler labor market conditions. Disposable income adjusted for inflation rose 0.1% for a third straight month as an increase in compensation was offset by falling receipts on assets.
- The most significant and reassuring news came from notable upward revisions to personal income in recent years. The annual national income and product accounts (NIPA) revisions revealed that real disposable income is now growing at a robust 3.1% year-over-year (y/y) pace, much stronger than the sluggish 1.1% pace pre-NIPA revisions. Real consumer spending growth picked up to 2.9% y/y. The revised data is very encouraging as it indicates a more sustainable pace of consumer spending backed by robust income momentum. Consumer spending is on track for solid growth of around 3% annualized in Q3.
- The personal saving rate was also revised up a notable 2 percentage points (ppt) and is now estimated to have remained relatively steady over the past two years. The higher saving rate, which stood at 4.8% in August, suggests “anti-exuberance” on the part of consumers who have not been spending above their means.
- Given relatively healthy household finances and smart prudence displayed by consumers, we foresee gradually cooling consumer spending growth into 2025 as slower employment growth weighs on income trends and prices and as rates remain generally elevated. We project consumer spending growth will slow below trend in Q4, averaging 2.5% in 2024 before slowing to 2% in 2025.
- On the inflation front, the headline and core personal consumption expenditures (PCE) deflators rose a modest 0.1% m/m, below consensus expectations for a 0.2% gain. As a result, headline PCE inflation fell 0.3ppt to 2.2% y/y – its lowest since February 2021 and within striking distance of the Fed’s 2% target – while core inflation ticked up to 2.7% y/y due largely to base effects.
- Gently softening consumer spending growth due to increased pricing sensitivity, reduced business markups, moderating wage growth and declining rent inflation will continue to provide a healthy disinflationary impulse. We anticipate the Fed’s favored inflation gauge, the deflator for PCE, will approach 2% in September but rebound toward 2.5% y/y by year-end due to unfavorable base effects.
- We continue to expect the Fed to ease policy by 25 basis points (bps) at every meeting through June of next year. This would translate into 50bps of rate cuts by year-end, putting the fed funds rate at 4.4% in December, and another 100bps of cuts to 3.4% in June 2025. However, with two more payroll reports due before the November meeting, the outlook could still shift in favor of a 50bps cut if labor market conditions were to deteriorate further.

In the details

Real personal outlays rose 0.1% m/m in August, following a 0.4% increase in July.

- Real durable goods outlays were unchanged following a 1.4% surge in July. The softness was driven by a 1.8% plunge in auto that was partially offset by higher spending on recreational goods and vehicles (+1.4%) while spending on furnishings and household equipment barely grew (+0.1%).
- Real spending on nondurable goods was also flat on broad-based weakness across categories with weaker spending on clothing (-0.6%), food (-0.5%) and at the gas station (-1.0%) amid lower prices at the pump.
- Services outlays grew at a modest pace in August, rising only 0.2% following a 0.1% gain in July. Weaker spending at restaurants and hotels (-0.1%) was offset by stronger spending on recreation services (+1.3%) and transportation services (+0.5%), while spending on housing and utilities (+0.1%) and health care (+0.1%) increased slightly.

Personal income rose a modest 0.2% in August as a robust 0.5% advance in wages and salaries and a 0.7% gain in rental income were offset by a 0.5% decline in income receipts on assets. Disposable income adjusted for inflation rose 0.1% for a third straight month, but momentum remains encouraging as it was still up a solid 3.1% y/y.

On the inflation front, the three-month annualized headline inflation reading rose 0.4ppt to 1.5% while the six-month annualized reading fell markedly by 0.5ppt to 1.9%. The three-month annualized core inflation reading rose 0.2ppt to 2.1% and the six-month annualized reading fell 0.2ppt to 2.4%.

Inflationary pressures remained muted across both goods and services categories:

- Durable goods prices fell for a second consecutive month, down 0.2% m/m in August on the back of lower prices for cars (-0.2%) and recreational goods and vehicles (-0.2%).
- Nondurable goods prices also fell 0.1% led by lower gas prices (-0.6%) while clothing prices (+0.5%) rose after three straight declines.
- Services prices rose a muted 0.2% as falling recreation (-0.1%) prices were offset by modest gains in prices for food and accommodation (+0.4%), housing and utilities (+0.3%), transportation (+0.2%) and health care (+0.1%).

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

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