



Personal income and spending July 2024

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Consumers spend, but become pickier even as inflation cools

- ▶ Real consumer spending grew a moderate 0.2% month over month (m/m) in June, following an upwardly revised 0.4% gain in May, as households favored prudence over exuberance in a high-price, high-interest rates environment. Households did not retrench but they did pull back their spending on autos, restaurants and hotels while spending cautiously on furniture, clothing, recreational services and transportation services.
- ▶ Most of the good news for consumers is now in the rearview mirror with spending revised up in April and May, but disposable income growth revised lower. In fact, with real disposable income only rising 0.1% m/m in June, the personal savings rate fell 0.1 percentage points (ppt) to 3.4%, its lowest since November 2022.
- ▶ On an annual basis, real consumer spending growth was unchanged at a healthy 2.6% year over year (y/y) in June. Still, with real disposable income growth having slowed to only 1.0% y/y in June, consumers are exercising more discretion with their spending. Lower- and median-income households with higher debt burdens and weaker savings buffers are showing more price sensitivity and caution in their purchases while higher-income families are still spending relatively freely. We project that real consumer spending will grow around 2.0% in 2024 and slow to 1.7% in 2025.
- ▶ The headline PCE deflator rose 0.1% as a modest 0.2% in core PCE prices, led by services, was offset by plunging gas prices. Durable goods prices were unchanged while transportation and recreation prices fell and food services and accommodation and housing prices only rose 0.1% and 0.2%, respectively.
- ▶ As a result, headline personal consumption expenditures (PCE) inflation fell 0.1ppt to 2.5% y/y – its lowest since February 2021 – while core inflation held at 2.6% y/y – its lowest since March 2021.
- ▶ Softer 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 foresee headline and core PCE inflation ending the year around 2.5% y/y.
- ▶ The Federal Reserve will hold the federal funds rate unchanged at 5.25% to 5.50% at next week's Federal Open Market Committee (FOMC) meeting, but we suspect policymakers will have a long and lively debate about whether and how to signal a September rate cut. In fact, some policymakers may even argue, as we have, that a July rate cut would have been optimal and preferable given current and expected economic conditions. We expect two 25 basis points (bps) rate cuts in 2024 (September and December) and 125bps of policy easing in 2025.



In the details

Real personal outlays rose 0.2% m/m in June, following an upwardly revised 0.4% decline in May.

- ▶ Real durable goods outlays fell 0.2% following a 2.2% surge in May. The decline in June was driven by a 2.6% plunge in auto that was partially offset by higher spending on furnishings and household equipment (+1.2%) and recreational goods and vehicles (+1.3%).
- ▶ Real spending on nondurable goods climbed 0.5% as consumers spent more freely on clothing (+1.1%) and at the gas station (+1.1%) amid lower prices at the pump.
- ▶ Services outlays remained sluggish in June, rising only 0.2% for a second consecutive month. Weaker spending at restaurants and hotels (-0.1%) was offset by marginally stronger spending on transportation services (+0.2%), recreation services (+0.1%), housing and utilities (+0.3%), financial services (+0.4%) and health care (+0.1%).

Personal income rose a modest 0.2% in June driven by a moderate 0.3% advance in wages and salaries, a 0.1% advance on income receipts on assets and a 0.3% advance in government benefits. Disposable income adjusted for inflation only rose 0.1% in June and is up a meager 1.0% y/y.

On the inflation front, the three-month annualized headline inflation reading fell 1.1ppt to 1.5% while the six-month annualized reading fell a tick to 3.0%. The three-month annualized core inflation reading eased to 0.6ppt to 2.3% and the six-month annualized reading rose a tick to 3.4%.

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

- ▶ Durable goods prices were unchanged after the largest decline since September 2001 in May, with lower prices for cars, furniture and recreational goods reflecting incentives and promos to draw price-discriminating consumers.
- ▶ Nondurable goods prices declined 0.3% led by lower gas and clothing prices.
- ▶ Services prices rose a muted 0.2% as falling prices for transportation and recreation prices were offset by modest gains in housing and utilities, health care and food services.

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