Personal income and spending October 2024

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Cautious consumers heading into the holiday season

- The US consumer engine lost some steam at the start of Q4 as real consumer spending grew only 0.1% month over month (m/m) in October following an upwardly revised 0.5% gain in September. Disposable income adjusted for inflation rose a robust 0.4% amid solid growth in compensation and receipts on assets. With income outpacing spending, the personal savings rate climbed 0.3 percentage points (ppt) to 4.4%.
- The moderation in spending was led by weaker nondurable goods outlays, which fell 0.1%, while durable goods outlays grew a more modest 0.3% following a 1.1% increase in September. Consumers spent less on autos and cut back on furnishings and household equipment and gasoline. Meanwhile, services outlays grew at a 0.2% pace led by moderate spending on healthcare, hotel stays and restaurants meals.
- Looking at the broader trend, consumer spending momentum remains well supported by robust income growth though momentum eased a little in October. Real disposable income grew 2.7% year over year (y/y) last month while real consumer spending rose 3.0% y/y. Slower monthly income momentum should lead to more cautious consumer spending in the coming months with real consumer spending likely to grow 2.5% annualized in Q4, after a 3.5% advance in Q3.
- Overall, consumer spending trends point to prudence, especially for lower- to median-income families with higher debt burdens and reduced savings buffers. We foresee gradually cooling consumer spending growth from 2.6% in 2024 to 2.2% in 2025 as slower employment growth weighs on income trends and prices and rates remain generally elevated.
- On the inflation front, the headline personal consumption expenditures (PCE) deflator rose 0.2% m/m while the core PCE deflator — the Federal Reserve's preferred inflation gauge — climbed 0.3% m/m in October, in line with expectations. As a result, headline PCE inflation rose 0.2ppt to 2.3% y/y after reaching its lowest point since February 2021 — while core inflation ticked up 0.1ppt to 2.8% y/y.
- Today's inflation figures are likely to reinforce the narrative that core inflation is proving stickier and bolster the case for a cautious Fed approach. But near-term inflation bumpiness doesn't detract from the fact that fundamentals remain disinflationary. The moderating trend in inflation will remain in place into early 2025, though it could then change as deregulation could support upside risks to growth and inflation, as well as potential immigration restrictions leading to renewed labor market tightness and wage pressures.

- Going into 2026, tariffs and tax cuts could generate more inflationary pressures. In contrast to Trump's first term, a rise in protectionism, curbs to immigration and larger budget deficits would come in a "new normal" paradigm defined by fragile supply conditions, elevated geopolitical tensions and structural upside risks to inflation. We foresee headline Consumer Price Index (CPI) inflation around 2.5% in Q4 2024, easing to 2.2% in Q4 2025 and picking up to 2.3% in Q4 2026.
- Given robust but gently decelerating economic activity, strong productivity growth and a moderating inflation trend, we continue to expect a 25 basis points (bps) rate cut to 4.25%-4.50% in December. Thereafter, we believe the Fed may decide to slow the recalibration process as policymakers more carefully feel their way to a neutral policy stance. Considering the election results, we now assume a rate cut at every other meeting in 2025, for a total of 100bps of easing, down from 150bps previously. Notably, risks are tilted toward less monetary policy easing in 2025-26.

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