Personal income and spending September 2024

October 31, 2024

Strategy realized

EY Parthenon
Shape the future with confidence

Author: **Lydia Boussour**

No tricks, just some consumer and inflation treats

- Consumer spending ended Q3 on a strong note as real consumer spending grew a robust 0.4% month over month (m/m) in September. Disposable income adjusted for inflation rose a less impressive 0.1% for a fourth straight month as an increase in compensation was offset by falling personal interest and proprietors' income.
- Solid consumer spending momentum is backed by robust income growth. Both real disposable income and real consumer spending growth grew 3.1% year over year (y/y) last month. Looking ahead, though, slower monthly income momentum should lead to more cautious consumer spending with real consumer spending growing 2.3% annualized in Q4, after a 3.7% advance in Q3.
- The personal savings rate fell 0.2 percentage point (ppt) to a nine-month low of 4.6% in September as consumers partially relied on their savings to power their spending. Still, recent upward annual revisions to the data have left the savings rate well above its post-pandemic trough of 2.0% reached in June 2022 — a sign that consumers haven't been spending well over their means in recent years.
- On average, household finances remain healthy even if increased polarization is evident. Lower-income and younger families are gradually more constrained by elevated debt financing costs and rising delinquencies while older generations and higher-income households have more fixed-rate debt and therefore less burdened by elevated debt servicing costs. We project consumer spending growth will gently ease into a slightly below-trend pace in H1 2025 as slower employment growth weighs on income trends and prices and rates remain generally elevated. Overall, we see consumer spending averaging 2.6% in 2024, before slowing to 2.2% in 2025.
- On the inflation front, the headline personal consumption expenditures (PCE) deflator rose 0.2% m/m while the core PCE deflator climbed 0.3% m/m in September, in line with expectations. As a result, headline PCE inflation ticked down to 2.1% y/y — its lowest since February 2021 and essentially in line with the Fed's 2% target — while core inflation remained steady at 2.7% y/y. We anticipate the Fed's favored inflation gauge, the deflator for PCE, will rebound toward 2.4% y/y by year-end due to unfavorable base effects. Meanwhile, core PCE inflation is likely to end the year around 2.7% y/y.
- With economic growth likely to moderate and disinflation factors still at work, we expect inflation to remain on a gentle descent toward the 2% target into 2025. We continue to expect the Fed to ease policy by 25 basis points (bps) at every meeting through June next year amid resilient but moderating growth and cooling labor market trends. This would translate into 50bps of rate cuts by year-end, putting the federal funds rate at 4.4% in December, and another 100bps of cuts to 3.4% in June 2025.

In the details

Real personal outlays rose 0.4% m/m in September, following an upwardly revised 0.2% increase in August.

- Real spending on nondurable goods led the charge in September with a 0.8% jump in outlays reflecting broad-based strength across categories. The gain was led by stronger spending on food (+0.6%) and gasoline (+0.3%) while clothing (+0.1%) saw a more muted gain.
- Real durable goods outlays rebounded 0.4% in August on the back of stronger motor vehicle (+1.4%) spending, which was only partially offset by weaker outlays on furnishings and household equipment (-0.3%).
- In contrast, services outlays posted a more moderate 0.2% gain in September following a 0.3% increase in August. A few of the categories that underpinned the strength in August posted weaker gains, including transportation (-0.7%) and recreational services (-0.4%). These were offset by solid spending at restaurants and hotels (+0.8%) and moderate outlays on housing (+0.2%), health care (+0.2%), and financial and insurance services (+0.2%).

Personal income rose 0.3% in September as a robust 0.5% advance in wages and salaries and a 0.5% gain in rental income were offset by a 0.4% decline in proprietors' income and a 0.2% drop in income receipts on assets. Disposable income adjusted for inflation rose 0.1% for a fourth 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 0.2ppt to 1.8% while the six-month annualized reading fell by 0.3ppt to 1.7%. The three-month annualized core inflation reading rose 0.2ppt to 2.4%, and the six-month annualized reading fell 0.2ppt to 2.3%.

Inflation data remained encouraging in September even though monthly price increases picked up slightly across goods and services categories:

- Durable goods prices rose 0.3% m/m after falling for two consecutive months, with the gain driven by higher prices for cars (+0.3%) and furnishings and household equipment (+0.5%).
- Nondurable goods prices fell 0.4% led by plunging gas prices (-4%) while clothing prices (+0.7%) and food prices (0.4%) picked up.
- Services prices rose 0.3% following a 0.2% increase in August amid stronger prices for transportation (+1.2%) and as housing (+0.4%) and health care (+0.4%) costs picked up modestly. Recreation services (+0.2%) prices saw a more muted gain, and prices for food services and accommodations were flat on the month.

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

See more on Macroeconomic insights

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

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 ecosystems, 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.

2408-36946-CS

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 and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization.