Personal income and spending November 2024

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Lukewarm holiday shopping and moderate inflation

- Consumers spent at a healthy clip at the start of the holiday season, but they exercised caution in the face of elevated prices. Real consumer spending rose 0.3% while disposable income adjusted for inflation rose 0.2% in November. Real consumer spending growth eased 0.2 percentage points (ppt) to 2.9% year over year (y/y) in November while real disposable income growth cooled 0.3ppt to a still-robust 2.6% y/y.
- Spending on durable goods, up 1.8%, drove the headline gain as consumers spent more on autos and recreational vehicles — driven by dealer incentives and the anticipation of potential tariffs. Outlays on nondurable goods rose a more subdued 0.2%, led by clothing and footwear. Spending on groceries fell for the third time in four months, indicating price pressures and the potential effect of weight-loss drugs. Meanwhile, services outlays only rose 0.1% — their smallest gain since August 2023 — as stronger spending on recreational services was offset by weaker spending on travel, restaurants and hotels.
- With spending outpacing income growth, the personal savings rate eased 0.1ppt to 4.4%, indicating that some families are dipping into their savings to finance their higher-priced consumer goods and services.
- The headline and core personal consumption expenditures (PCE) deflators only rose 0.1% month over month (m/m) — much less than the Consumer Price Index (CPI) inflation gauges. As a result, headline PCE inflation ticked up to 2.4% y/y while core inflation remained unchanged at 2.8% y/y.
- Core inflation is proving somewhat stickier than anticipated at year-end, but near-term inflation bumpiness doesn't detract from the fact that economic fundamentals remain disinflationary with more prudent consumer spending, reduced pricing power, easing housing cost inflation and non-inflationary wage pressures when factoring strong productivity growth.
- Short-term inflation dynamics are reassuring and would support further Fed policy recalibration. The three-month and six-month annualized PCE inflation gauges stood at 2.1% and 1.9% in November, respectively. And the three-month and six-month annualized core PCE inflation gauges stood at 2.5% and 2.4%, respectively.
- We expect the moderating trend in inflation will remain in place into early 2025, though it could then change as deregulation, potential immigration restrictions and tariffs lead to a renewed inflation impulse. In contrast to Trump's first term, these inflationary pressures would come in a new paradigm defined by fragile supply conditions, elevated geopolitical tensions and structural upside risks to inflation.

- Looking at the broader trend, consumer spending remains well supported by income, but cooler employment and income momentum points to slower outlays growth in 2025, especially for lower- to median-income families who are grappling with higher debt burdens and reduced savings buffers.
- We foresee consumer spending growth cooling from 2.7% in 2024 to 2.3% in 2025. We expect headline PCE inflation will average 2.5% y/y in Q4 2024 and moderate to 2.2% y/y in Q4 2025 while core inflation eases from 2.8% y/y in Q4 2024 to 2.3% y/y in Q4 2025.
- We reaffirm our expectation that policymakers will want to slow the recalibration process in 2025 as they feel their way to a neutral policy stance and navigate upside risks to inflation. Earlier this month, we revised our forecast to show a rate cut at every other meeting through Q3 2025, for a total of 75 basis points (bps) of easing (down from 100bps previously). This would translate into a January skip and a March cut.

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