Economic Update

May 31, 2024

Modest Declines in Real Consumer Incomes and Spending in April; Core Inflation Slowed

- **After-tax income and consumer spending both rose 0.2% in April.**
- **Both after-tax income and consumer spending fell 0.1% in April after accounting for higher prices.**
- **There was a modest slowing in monthly core inflation in April, but it remains stuck above the Federal Reserve's 2% objective.**
- **Consumer spending should continue to increase into 2025 thanks to the solid labor market.**
- **Easing inflation will support a couple of cuts in the federal funds rate later this year.**

Nominal personal income increased 0.3% in April from March, according to the Bureau of Economic Analysis. Nominal after-tax income was up 0.2% for the month.

Nominal consumer spending rose 0.2% in April.

The personal consumption expenditures price index rose 0.3% in April, the third straight month of 0.3% inflation. The PCE price index, excluding food and energy, rose 0.2% in April. This was the slowest core inflation since December.

On a year-ago basis overall PCE inflation was 2.7% in April, unchanged from March, but up from 2.5% in January and February. Core PCE inflation was 2.8% year-over-year for a third straight month, down from 2.9% in late 2023 and early 2024.

Real after-tax income fell 0.1% in April, with real consumer spending also down 0.1%.

With both after-tax income and spending up 0.2%, the saving rate held steady at 3.6% in April from March. This is down from 3.8% in February and 4.1% in January.

The April personal income and outlays report was a mixed bag. Both nominal after-tax income and nominal consumer spending rose modestly over the month, but after adjusting for inflation both numbers were down slightly. Real spending and incomes were up solidly in the first quarter, however, so some retreat in April was not surprising, and should not be taken as a sign that consumers are running out of steam.

The fundamentals for near-term consumer spending growth are generally solid. The labor market is historically strong, with very low unemployment, good job growth, and wage growth running ahead of inflation. Household wealth is rising thanks to record-high stock prices and rising home values. High interest rates and inflation are drags, and households will need to increase their saving somewhat in the near term. But real consumer spending will continue to increase throughout 2024 and into 2025, albeit at a slower pace than in 2023.

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The slowing in monthly core inflation in April was welcome, but the Federal Reserve wants to see more proof that inflation is slowing towards its 2% objective before cutting the fed funds. On a year-ago basis core PCE inflation has been at 2.8% for the past three months. Some relief should come in the months ahead as slower rent growth works its way into the PCE numbers. And later this year an easing in wage pressures should also contribute to a softening in inflation. PNC expects core PCE inflation to slow enough so that the Federal Open Market Committee feels comfortable cutting the fed funds rate a couple of times in the second half of 2024, with a few more rate cuts in 2025. Inflation should be back to the Fed's 2% objective by this time next year.

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