# Economic Update

April 30, 2025

## Solid Job and Spending Gains in March as Consumer Side of the Economy Continued to Hold Up in Early Spring; Inflation Slowed

- **After-tax personal income rose 0.5% in March, with consumer spending up 0.7%.**
- **Both overall and core inflation were flat in March, and fell on a year-ago basis.**
- **Tariffs will be a drag on consumers and contribute to higher inflation in the months ahead.**
- **Tariffs have increased the risk of near-term recession.**
- **PNC expects multiple fed funds rate cuts in the second half of 2025.**

Personal income, before adjusting for inflation, rose 0.5% in March from February, according to the Bureau of Economic Analysis. After-tax income was also up 0.5% over the month, and labor market income rose 0.5% as well.

Nominal (not adjusted for inflation) consumer spending rose 0.7% on the month, with increases in spending on durable goods and services, and a drop in spending on nondurable goods due to lower gasoline prices.

The personal consumption expenditures price index was flat on the month, as was the core PCE price index, which excludes volatile food and energy prices. Energy prices fell 2.7% in March, but food prices rose 0.5%.

On a year-ago basis overall PCE inflation was 2.3% in March, down from 2.7% in February. Core PCE inflation was 2.6%, down from 3.0%. Core inflation has slowed from above 7% in mid-2022, but has been stuck below 3%, but above the Federal Reserve's 2% objective, for more than one year.

Real (inflation-adjusted) after-tax income increased 0.5% in March, with real consumer spending up 0.7%.

With spending up more than after-tax income, the personal saving rate fell to 3.9% in March from 4.1% in February.

Personal income and consumer spending growth held up in March. The labor market remains solid, supporting income growth, and rising incomes are leading to rising spending. But consumer confidence has tanked in recent months with concerns about tariffs. If tariffs lead to big price hikes, or the labor market starts to soften, consumer spending growth could swiftly cease. The recent drop in stock prices will be a drag on spending by high-income households. PNC expects consumer spending growth to slow in 2025 due to tariff-induced price increases and weaker job growth, but not contract, and the overall economy should continue to expand. But recession risks are elevated. The probability of recession over the next year is around 40% now, up from 15% at the beginning of 2025.


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Inflation is set to pick up as tariff increases lead to higher goods prices. This will create a dilemma for the Federal Open Market Committee. Inflation is still above the FOMC's 2% objective, but the labor market could start to soften, putting the committee's two goals in conflict. PNC expects the FOMC to cut the fed funds rate by 25 basis points at each of its four meetings in the second half of this year. That would bring the fed funds rate to a range of 3.25% to 3.50% by the end of 2025.

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