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- Consumer spending rose faster than income in June as consumers dug into savings.

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The consumer price inflation rate (PCED), the FOMC's preferred measure of inflation, slowed sharply in June, echoing the better known CPI, its "fraternal twin." The headline PCED rose 0.2% in June and the year-over-year rise fell sharply to 3.0% (the same as the CPI). The core PCED, which excludes food and energy price influences, also rose by 0.2% in June and the year-over-year rise was down to 4.1% - even lower than the core CPI’s 4.8% rise. This is welcome news to the FOMC and the financial markets.

Personal income rose 0.3% in June and workers’ compensation rose 0.5% reflecting the rise in workers and their wages last month. Disposable (after-tax) income rose 0.3% in June. Consumer spending (PCE) rose a strong 0.5% in June with spending on both goods and services moving higher. With spending rising faster than income, consumers dug into their savings. The June savings rate fell to 4.3% from 4.6% in May. Real (inflation-adjusted) PCE rose a strong 0.4% in June, capping off the second quarter’s rise in real PCE of 1.6% at an annual rate.

PNC expects a shallow recession to start in late 2023 or early 2024 as the impact of higher interest rates continues to work its way through the economy. Also, the resumption of student loan principal and interest rate payments starting in October (estimated between an average of $350-$400 per month) for close to 27 million borrowers and the cancellation by the SCOTUS of President Biden’s $20K debt cancellation are both moderate negatives for consumer spending in the final holiday quarter of this year and in 2024. These drags on growth are built into our forecast for a shallow recession.

Please reach out with any questions.

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