

## Big Gain in Personal Income in April With Social Security Change, More Modest Growth in Spending; Inflation Eased; Tariff Uncertainty Continues

- **Nominal personal income rose 0.8% in April. Labor market income growth was solid, but much of the increase came from a one-time change in Social Security benefits.**
- **Nominal consumer spending growth was modest at 0.2% as tariffs cause swings in behavior.**
- **Inflation was modest, with both the overall and core PCE price indices up just 0.1% on the month. Inflation using both measures slowed on a year-ago basis in April, still above but closer to the Fed's inflation objective.**
- **The outlook remains extremely uncertain as a court this week invalidated most of the recent tariff increases, but that ruling has been stayed.**
- **As long as the tariffs remain in place they will lead to higher inflation and weaker consumer spending growth.**
- **PNC expects the FOMC to remain on hold until late 2025.**

Personal income rose 0.8% in April from March before adjusting for inflation, while disposable (after-tax) personal income also rose 0.8%. Income growth has been strong over the past three months at 0.7% to 0.8%. Wages and salaries, which are most important for consumer spending, rose a softer but still-solid 0.5% over the month. There was a large 2.8% increase in government transfer payments in April due to a new law that raised Social Security benefits for public-sector retirees.

Nominal (before inflation adjustment) consumer spending rose 0.2% in April, following a 0.7% increase in March. Spending fell 0.3% on durable goods in April after a big 3.7% jump in March as buyers tried to get ahead of higher tariffs. Spending on nondurable goods was flat in April, and spending on services rose 0.4%, near the recent pace.

On a year-ago basis after-tax personal income rose 5.2% in April, with consumer spending up 5.4%.

With disposable income up more than spending in April, the personal saving rate jumped to 4.9%, from 4.3% in March. This was the highest personal saving rate since May 2024.

The personal consumption expenditures price index rose a modest 0.1% in April, after no change in prices in March. The core PCE price index, excluding volatile food and energy prices, also rose 0.1% in April, the same core inflation rate as in March. There was a large 0.5% increase in durable goods prices in April, likely influenced by tariffs.

On a year-ago basis overall PCE inflation was 2.1% in April, down from 2.3% in March and 2.5% to 2.6% from November through February. PCE inflation peaked at above 7% in mid-2022. Core PCE inflation was 2.5% on a year-over-year basis in April, down from 2.7% in March. The last time core PCE inflation was this low as in early 2021, as the economy was coming out of the Viral Recession. Core PCE inflation peaked at close to 6% in mid-2022. There has been significant progress in moving inflation to the Federal Reserve's 2% objective, but tariffs are likely to lead to a reacceleration in inflation in the near term.

Real (inflation-adjusted) personal disposable income increased 0.7% in April, with real consumer spending up 0.1%. On a year-ago basis real after-tax income was up 2.9% in April, with real consumer spending up 3.2%.

The report on personal income and consumer spending for April tells us little about the state of the U.S. economy in the spring of 2025. Income growth was strong, but much of that was due to a change in Social Security benefits that will not persist. After the announcement of large tariff increases in early April, additional big swings in tariff rates since then, a ruling earlier this week from the International Court of Trade invalidating most of the tariff increases, and then a stay on enforcing that ruling from an appeals court, the outlook remains extremely jumbled. Consumers are confused and unsure about how to respond to the rapidly changing environment. That confusion will remain the norm until there is a final ruling on the tariffs, perhaps from the Supreme Court, a process that is likely to extend well into the second half of this year, if not beyond. Until then the uncertainty surrounding tariffs will discourage consumers from making big purchases, creating a further drag on spending.

There were a few impacts of tariffs apparent in the April report. Durable goods prices increased at the fastest monthly pace since early 2023, and consumer spending on durable goods fell in April after rising sharply in March ahead of tariff increases. Higher goods prices from tariffs will become more apparent over the next few months. This, in turn, will weigh on consumer spending.

If tariffs remain in place consumer spending growth will slow through the rest of 2025 as the higher taxes discourage spending. High interest rates remain a drag on spending, particularly on durable goods and housing-related items. But the labor market continues to hold up, with solid albeit slowing job growth and steady wage gains. The biggest upside potential for consumers is a quick court decision to permanently invalidate the Trump administration's tariff increases.

Monetary policy remains on hold. The Federal Open Market Committee indicated at its meeting in early May that it will keep the fed funds rate in its current range of 4.25% to 4.50% until there is more clarity on inflation and the labor market. As long as tariffs remain in place inflation is set to reaccelerate in the near term, and the Fed wants to see if this is only a temporary increase in inflation, or something more permanent. At the same time tariffs are likely to lead to a softening in the labor market. Assuming the tariffs remain in place in the near term PNC expects no change in the fed funds rate until the end of 2025, when the central bank will start to gradually cut rates. But a permanent halt to the tariffs could lead to a further slowing in inflation and rate cuts that come sooner rather than later.

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