

- **Both overall and core PCE inflation slowed in October. But inflation remains well above the Fed's 2% objective.**
- **Household income and consumer spending both increased at a moderate pace in October.**
- **The FOMC is set to keep the fed funds rate unchanged when it meets on December 13.**
- **After a solid holiday season, consumer spending growth will slow in 2024 as the drag from higher interest rates continues to intensify. PNC's forecast is for a mild recession starting in mid-2024.**

The personal consumption expenditures (PCE) price index was basically flat in October from September (up 0.049% before rounding), with core prices (excluding food and energy) up 0.2% over the month. This was the first month where overall prices did not increase since July 2022. Core inflation has been running at about a 0.2% monthly pace since June, a significant slowing from 0.4% increases in early 2023.

On a year-ago basis overall PCE inflation was 3.0% in October, down from more than 7% in mid-2022. Core PCE inflation was 3.5% in October year-over-year, down from 5.5% in September 2022. Although both overall and core inflation are slowing, they both remain well above the Federal Reserve's 2% objective.

Nominal personal income rose 0.2% in October from September. Wages and salaries were up 0.1% over the month; the UAW strike likely weighed on income growth. Nominal after-tax personal income rose 0.3%. Real (inflation-adjusted) after-tax income was up 0.3% with essentially no inflation over the month.

Nominal consumer spending rose 0.2% in October, the smallest increase since May. Nominal spending growth averaged a strong 0.6% in June through September, so consumers were set to take a breather. With no inflation, real consumer spending was also up 0.2% in October.

Nominal spending on durable goods dropped 0.5% in October as high interest rates were a drag. Spending on nondurable goods was flat, while services spending rose 0.4%, near the recent pace.

With spending up by less than income, the personal saving rate rose to 3.8% in October from 3.7% in September. Still, the personal saving rate is below the pre-pandemic 6% to 7% rate, and consumers will need to increase their saving through the rest of this year and in 2024.

This October personal income and outlays report was what Federal Reserve policymakers wanted to see. Both core and overall inflation continue to soften, income growth was solid, and consumer spending growth is slowing, particularly for interest-rate sensitive durable goods. Inflation is still too high for the Federal Open Market Committee, but it does continue to move to 2%, and consumer spending is increasing at a moderate pace. The FOMC will keep the fed funds rate in its current range of 5.25% to 5.50% when it meets on December 13; the fed funds futures market is pricing in a 96% probability of no change.

Consumer spending growth will be solid this holiday season but then soften into 2024 as job and wage growth ease, high interest rates remain a drag, and households increase their saving. The open question remains whether consumer fundamentals are solid enough to support continued modest growth in consumer spending throughout next year, or if consumer spending outright declines and the U.S. economy falls into recession. PNC's baseline outlook is for a mild recession starting in mid-2024 as high interest rates continue to weigh on the economy.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 12/13/23)	5.38-5.38%	5.38%	5.38%	The FOMC will hold their Fed funds rate target range steady at 5.25-5.50% at their December 13 meeting and all through the first half of 2024. We expect the first of three 25 bps rate CUTS in the latter half of the year to start at the July 2024 FOMC meeting.
Oct Factory Orders (12/4, Monday)	-3.6 to -0.2%	-2.8%	2.5% (Sept)	Down 3.2% mostly due to a huge drop in civilian aircraft orders, after big jumps in August and September.
Nov ISM-NMI (12/5, Tuesday)	50.0-53.0	52.2	51.8 (Oct)	Up to 53.
Nov ADP Employment Survey (12/6, Wednesday)	115K-140K	123K	113K (Oct)	Up 140K.
Oct Trade Balance (12/6, Wednesday)	-\$66.0 to -\$59.2B	-\$64.3B	-\$61.5B (Sept)	A widening to -\$64.5 billion.
Q3 Nonfarm Productivity (Revised) (12/6, Wednesday)	1.2-5.1%	4.9%	4.7% (Q3)	Revised up to 5.0%.
Q3 Unit Labor Costs (12/6, Wednesday)	-1.3 to 3.0%	-1.0%	-0.8% (Q3)	Revised down to -1.0%.
Initial Claims, Wk of 12/2/23 (12/7, Thursday)	215-225K	222K	218K (11/25/23)	Up to 222.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Oct Consumer Credit (12/7, Thursday)	\$4.0-\$14.0B	\$9.3B	\$9.1B (Sept)	Up \$15 billion.
Nov Nonfarm Payrolls (12/8, Friday)	110-250K	190K	150K (Oct)	Up 195K which includes about 60K UAW and SAG-AFTRA members who returned to work after their strikes were settled in early November. Thus, it is important to take the average of payroll gains in September, October and November to get an accurate picture of the underlying trend in payroll job growth this autumn.
Nov Private Nonfarm Payrolls (12/8, Friday)	100-200K	157K	99K (Oct)	Up 165K, which again includes the return to work of about 60K strikers discussed above.
Nov Manufacturing Payrolls (12/8, Friday)	25-40K	31K	-35K (Oct)	Up 35K which mostly includes the return to work of UAW members on strike.
Nov Unemployment Rate (12/8, Friday)	3.8-4.0%	3.9%	3.9% (Oct)	Down to 3.8% as both household jobs and the labor force rebound from their October declines.
Nov Average Hourly Earnings (12/8, Friday)	0.2-0.4%	0.3%	0.2% (Oct)	Up 0.4% which keeps the Y/Y rise steady at 4.1%.
Nov Hours Worked (12/8, Friday)	34.3-34.4hrs	34.3hrs	34.3hrs (Oct)	Up to 34.4.
Dec U. Mich. Consumer Sentiment (prelim) (12/8, Friday)	59.8-64.0	62.0	61.3 (Nov final)	Up to 64 in response to lower gasoline prices and higher stock prices,

Monthly Calendar of Economic Data: December 2023

Dec 4

Manufacturers'			
	Ship	Inv	Orders
Aug	1.3	0.3	1.0
Sept	0.4	0.2	2.8
Oct			

Dec 5

ISM Non-Mfg Index	
Sept	53.6
Oct	51.8
Nov	

Dec 6

Trade Balance (\$B)	
Aug	-\$58.7
Sept	-\$61.5
Oct	

Nonfarm Productivity & Costs (Q3 Revised)		
	Productivity	Unit Labor Costs
Q4'22	1.6	-2.0
Q1'23	-0.8	7.4
Q2'23(p)	3.7	3.2
Q2'23(r)	3.6	2.2
Q3'23(p)	4.7	-0.8
Q3'23(r)		

Nov ADP Employment Survey

Dec 7

Unemployment Claims (000)				
July	Aug	Sept	Oct	Nov
249	250	217	211	218
237	240	221	200	233
228	232	202	212	211
221	229	205	220	218
227		209		

Consumer Credit (\$B)	
Aug	-\$15.6
Sept	\$9.1
Oct	

Dec 8

	U. Rate	Jobs (000)
Sept	3.8	+297
Oct	3.9	+150
Nov		

Dec U. Mich. Consumer Sentiment (prelim)

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