Economic Update

December 20, 2024

Moderate Growth in Consumer Incomes and Spending in November, With Low Inflation

- **Personal income rose 0.3% in November, with after-tax income also up 0.3%.**
- **Consumer spending rose 0.4% in November.**
- **PCE inflation was 0.2% in November, with core PCE inflation of 0.1%. On a year-ago basis core PCE inflation remains above the Fed's 2% objective.**
- **PNC expects two fed funds rate cuts in 2025.**
- **The outlook for consumer spending growth next year is positive, but tariffs are a downside risk.**

Personal income increased 0.3% in November from October before adjusting for inflation, according to the Bureau of Economic Analysis. This included a good 0.6% increase in wage and salary income. After-tax income was also up 0.3% for the month. Consumer spending rose 0.4% in November. The monthly income and spending numbers are consistent with recent trends.

With spending up more than income, the personal saving rate fell to 4.4% in November from 4.5% in October.

The personal consumption expenditures price index rose 0.2% in November. The core PCE price index, excluding food and energy, rose a scant 0.1% over the month, the smallest increase since May. The core PCE price index is the Federal Reserve's preferred inflation measure.

On a year-ago basis overall PCE inflation was 2.4% in November, up from 2.3% in October. Core PCE inflation was 2.8% year-over-year in November, the same pace as in October. Core PCE inflation has been between 2.6% and 2.8% on a year-ago basis every month since June. While this is down from close to 6% in early 2022, progress toward the Fed's 2% inflation objective has been uneven in 2024.

After adjusting for inflation after-tax personal income rose 0.2% in November from October. Real (inflation-adjusted) consumer spending rose 0.2% over the month. Real spending was up on durable goods (1.8%), nondurable goods (0.2%), and services (0.1%).

On a year-ago basis real after-tax personal income was up 2.6%, with real consumer spending up 2.9%. After-tax real personal income growth has been slightly below 3% in 2024, while real consumer spending growth has been around 3%.

The personal income and outlays report for November came in largely as expected. Core PCE inflation was lower than it has been in recent months, but on a year-over-year basis it remains modestly but stubbornly above the central bank's 2% target. Tariffs under the incoming Trump administration could keep inflation above 2% in 2025. The Federal Open Market Committee is committed to achieving its 2% inflation objective,

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and will maintain a contractionary monetary policy to do so. This does not mean that the FOMC will not cut the fed funds rate in 2025: at its current range of 4.25% to 4.50% monetary policy is restrictive, weighing on economic growth. But the FOMC will be cautious in cutting the fed funds rate going forward. PNC expects 25 basis point cuts in the fed funds rate at two of the four FOMC meetings in the first half of next year (March and June). This would take the fed funds rate to between 3.75% to 4.00% by mid-2025, and PNC then expects the rate to remain in that range through the rest of 2025 and into 2026.

Consumers are generally in good shape at the end of 2024. Incomes are rising at a steady pace thanks to good job and wage gains, and faster than prices are increasing. Consumer spending growth is also solid. As long as the labor market continues to hold up household incomes and purchases will rise, supporting overall economic growth. Lower interest rates will also support spending growth in 2025. And rising household wealth from higher stock prices and home values are also supporting consumer spending growth, particularly for upper-income households. However, some lower- and middle-income households are under pressure from the high inflation of the last few years. While the drivers of consumer spending are generally positive, household purchases have risen more quickly than incomes over the past couple of years, and PNC expects spending growth to soften in 2025 to a pace more consistent with income growth. Tariffs that would raise goods prices are a downside risk to the consumer outlook for 2025.

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