Economic Update

PNC

February 3, 2025

Big Jump in Consumer Spending, More Moderate Growth in Income in December; Core Inflation Slowed

- **There was a large 0.7% increase in consumer spending in December. After-tax income rose a more moderate 0.4% over the month.**
- **Overall PCE inflation picked up in December because of higher energy prices, but core inflation was more moderate.**
- **Core inflation remains above the Federal Reserve's 2% objective.**
- **Growth in both incomes and spending will slow in 2025.**
- **Inflation will remain elevated in the near term as tariffs push up prices.**

Consumer spending jumped 0.7% in December from November before adjusting for inflation (nominal), according to the Bureau of Economic Analysis. This was the biggest increase in household spending since September, and was up from 0.6% growth in November (revised up from 0.3%). Services and durable goods spending both rose 0.6% over the month, while spending on nondurable goods rose 1.0%, in large part because of higher energy prices. On a year-ago basis nominal consumer spending was up 5.7% in December.

Nominal personal income rose 0.4% in December, with wage and salary income also up 0.4%. After-tax income rose 0.4% on the month as well. After-tax income growth was 0.3% in November. On a year-over-year basis after-tax income growth was 5.0% in December.

With spending up more than income the personal saving rate fell to 3.8% as a share of after-tax income in December, from 4.1% in November. The personal saving rate has been steadily falling since early 2024 as spending growth has outpaced income growth. The personal saving rate is also down from the roughly 7% rate that prevailed before the pandemic. At some point consumer spending growth will need to slow to a pace more consistent with underlying income growth.

The personal consumption expenditures price index rose 0.4% in December from November, the biggest one-month increase in overall prices since April. Much of the gain came from energy prices, which were up more than 4% over the month. The core PCE price index, excluding volatile food and energy prices, rose a more moderate 0.2% in December, close to the trend in recent months.

On a year-ago basis overall PCE inflation was 2.6% in December, up from 2.4% in September and a recent low of 2.1% in September. Core PCE inflation, which is the Federal Reserve's preferred inflation measure, was 2.8% on a year-ago basis in December, the same pace as in October and November. Core inflation, which peaked at close to 6% in 2022, fell sharply in 2023 and early 2024. But since the summer of 2024 it has been

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

stuck between 2.6% and 2.8%, much lower than it was a couple of years ago, but still meaningfully above the central bank's 2% objective.

After adjusting for inflation consumer spending rose 0.3% in December from November, with after-tax income up 0.1%. After-tax income was up 2.4% in December from a year earlier, with consumer spending up 3.1%.

There was moderate growth in nominal personal income in December, and stronger growth in consumer spending. U.S. households continue to increase their purchases. The drivers are mostly positive, particularly an historically strong labor market, as well as slowing inflation. Rising wealth, thanks to increasing home values and stock portfolios, is also boosting spending, particularly for upper-income households. But there are some drags. The big runup in prices since the pandemic is weighing on some lower- and middle-income households, and interest rates, although they are down from earlier in 2024, are still much higher than they were a few years ago. In addition there are some initial signs of deterioration in credit quality, particularly for lower- and middle-income spenders, although overall credit burdens remain low.

PNC expects solid but slower growth in personal income and consumer spending in 2025. Job growth is expected to ease from its current pace, and wage growth will also slow. In addition, spending growth cannot continue to indefinitely outpace income growth. Tariffs are a significant downside risk for consumer spending this year.

The fundamentals are for slowing in inflation in 2025. Housing inflation will continue to slow, and easing wage pressures should push down services inflation. But tariffs will lead to a temporary acceleration in goods inflation. After cutting the federal funds rate by a cumulative 100 basis points in 2024, PNC expects more moderate rate cuts of 50 basis points this year, likely around the middle of 2025.

PNC Economics
Gus Faucher, Chief Economist
economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.