

Modest Growth in Personal Income and Consumer Spending in June, As Inflation Continues to Ease

- **Nominal personal income rose 0.2% in June, with after-tax income also up 0.2%.**
- **Nominal consumer spending rose 0.3% over the month.**
- **The PCE price index rose 0.1%, with core PCE inflation at 0.2%. Inflation is easing in mid-2024.**
- **PNC expects the FOMC to cut the fed funds rate at their mid-September meeting.**
- **A solid labor market will contribute to positive, but slower, consumer spending growth into next year.**

Nominal personal income rose 0.2% before inflation in June from May, according to the Bureau of Economic Analysis. After-tax income was also up 0.2%. Nominal consumer spending rose 0.3% over the month. Incomes are rising with job and wage gains from the strong labor market. This, in turn, is leading consumers to spend more.

The personal consumption expenditures price index rose a scant 0.1% in June, after no increase in May. The core PCE price index, the Federal Reserve's preferred inflation measure, rose 0.2% over the month, slightly more than the 0.1% increase in May. On a year-ago basis overall PCE inflation slowed to 2.5% in June from 2.6% in May, and a peak of more than 7% in mid-2022. The core PCE price index was unchanged in June from May at 2.6%, and down from above 3% in November 2023. Inflation has slowed over the past couple of months after little progress on earlier in the year.

After adjusting for inflation after-tax income rose 0.1% in June from May, while consumer spending rose 0.2%.

With spending up more than incomes the personal saving rate fell to 3.4% in June, from 3.5% in May. This is the lowest saving rate since late 2022.

There were downward revisions to income growth in April and May, and upward revisions to consumer spending growth in both months.

The personal income and consumption report was OK, but not great. With low inflation there was a modest increase in real personal income, and a slightly larger increase in real consumer spending. Inflation was up a bit from May, but was lower than it was earlier in 2024. Core PCE inflation was unchanged on a year-over-year basis, but is gradually moving lower.

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The report supports PNC's forecast for a federal funds rate cut at the Federal Open Market Committee's meeting in mid-September. The FOMC is meeting next week, but likely wants to see further progress on inflation before starting to ease monetary policy. More expected good news on inflation over the next month or so should give the FOMC enough confidence that inflation actually is slowing after progress stalled in early 2024. Core PCE inflation should be back to the Federal Reserve's 2% objective by this time next year.

Consumers are in good shape in mid-2024, but pressures are building. The labor market is still strong with good job and wage gains, but not as strong as it was last year. The saving rate is low, and at some point households will need to increase their saving. High interest rates are also a drag on consumers. But lower inflation, especially lower energy prices, are a positive. And high-income households especially are benefiting from rising home values and stock prices. Real income gains will continue in the second half of this year, but at a slower pace as job and wage gains ease. Households will also need to increase their savings. For that to happen consumer spending growth will need to slow below income growth. PNC expects consumer spending to continue to increase in the near term, but at a slower pace, leading to softer overall economic growth.

Wages and salaries rose 0.3% in June, with smaller increases in other forms of income. There was also a 0.4% increase in personal taxes.

Spending on goods rose 0.1% in June. There was a 0.2% drop in durable goods spending, as the CDK Global cyberattack on auto dealers led to a drop in spending on motor vehicles. But consumer spending on services rose a solid 0.4%.

Goods prices fell 0.2% in June, with energy prices down 2.1% for a second straight month. Services prices rose a modest 0.2% over the month, below the pace early in 2024, as housing inflation eases. Lower rents are gradually working their way into shelter inflation and should continue to restrain services inflation through the rest of 2024 and into 2025.

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