Economic Update

November 27, 2024

Inflation Remained Contained in October, With a Big Increase in Income and a Smaller Gain in Spending

- **Inflation was moderate in October, with the PCE price index up 0.2% and the core PCE price index up 0.3.%.**
- **Nominal consumer spending rose 0.4% in October, with after-tax income up 0.7%, the biggest increase since March.**
- **Real spending and incomes also increased in October.**
- **Inflation will continue to gradually slow to the Fed's 2% objective.**
- **The fundamentals for consumer spending are solid heading into 2025, but there are lots of uncertainties.**

The personal consumption expenditures price index rose 0.2% in October from September; it has been running at a monthly pace of at or below 0.2% for the past six months, consistent with low and steady inflation. The core PCE price index, excluding volatile food and energy prices and the Federal Reserve's preferred inflation measure, rose 0.3% in October, the same pace as in September, and up from monthly gains of 0.1% to 0.2% in May through August.

On a year-ago basis overall PCE inflation was 2.3% in October, up from 2.1% in September, but down from 2.6% or higher through the first half of this year, and from a peak of above 7% in mid-2022. Core PCE inflation was 2.8% in October, up from 2.7% in July through September, but down from 3% in January and above 5% through most of 2022. Core inflation is moving toward the Federal Reserve's 2% objective, but slowly, with some ups and downs.

Nominal personal income, before adjusting for inflation, rose 0.6% in October from September, the biggest one-month increase since March. There was a large 0.5% increase in wages and salaries in October, even as job growth was very soft due to Hurricanes Helene and Milton and the Boeing machinists strike. After-tax personal income rose 0.7% in October, the biggest gain since January.

Nominal consumer spending rose 0.4% in October, with increases of 0.3% for durable goods and 0.5% for services, but a decline of 0.2% for nondurable goods.

After adjusting for inflation after-tax income was up 0.4% in October, with real consumer spending up 0.1%. Real consumer spending increased 0.5% in September, and has risen for six straight months.

Gus Faucher
Chief Economist

Jay Hawkins
Senior Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

With after-tax income rising faster than spending, the personal saving rate rose to 4.4% in October from 4.1% in September. The personal saving rate is down from around 5% in the first half of the year, but is much higher than it was in 2022, when households were spending down saved stimulus aid.

The personal income and saving rate report for October was a solid one. Income growth was good, consumer spending growth was softer (but that followed a strong September), and inflation is gradually easing. There has been less progress on core inflation in recent months, but it should continue to slow into 2025 as rent growth eases, inflationary wage pressures continue to abate, and year-over-year comparisons become easier. Core inflation should be at the Federal Reserve's 2% objective by the second half of 2025.

The fundamentals for income and consumer spending remain good. The labor market is strong, with solid wage growth that is running ahead of inflation. Job growth will bounce back in November as one-time factors (the hurricanes, the Boeing strike) weighed on employment in October. Household wealth is rising with higher home values and stock prices, and slowing inflation is giving consumers a bit more breathing room. Lower interest rates as the Fed continues to ease monetary policy will support purchases of big-ticket items. But lower- and middle-income households remain under some stress from high inflation in 2021 through 2023.

There are big upside and downside risks to the outlook as President-elect Trump gets ready to take office. Tax cuts could boost after-tax incomes and support consumer spending growth. But broad-based tariffs would raise prices for consumers and cause them to pull back on goods purchases. And higher inflation stemming from tariffs could lead the Fed to hold off on interest rate cuts, weighing on economic growth.

PNC Economics
economics@pnc.com

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