

Economic Indicator — February 29, 2024

# Surges in Inflation & Personal Income Both Apt to Be Short-Lived

## Summary

Personal income growth surprised on the upside in January allowing consumers to keep spending; but after adjusting for inflation, real spending fell 0.1%. The Fed's preferred gauge of inflation, the core PCE deflator, notched its biggest monthly gain since January 2023.

Economist(s)

**Tim Quinlan**

Senior Economist | Wells Fargo Economics  
Tim.Quinlan@wellsfargo.com | 704-410-3283

**Shannon Seery Grein**

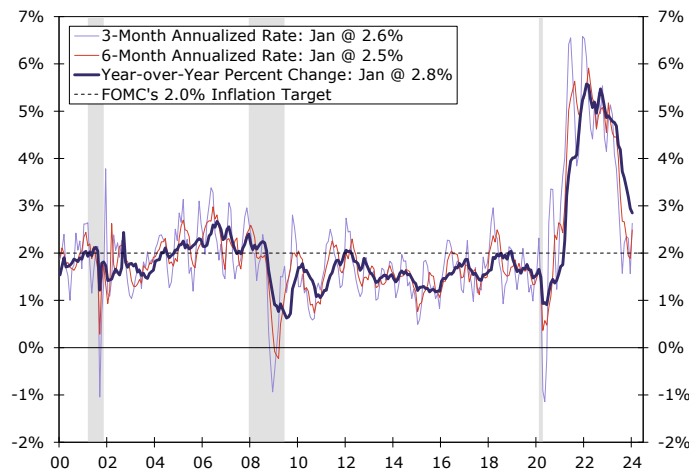
Economist | Wells Fargo Economics  
shannon.grein@wellsfargo.com | 704-410-0369

U.S. Personal Income & Spending: January 2024												
	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
<b>Personal Income (MoM)</b>	0.5	0.5	0.2	0.3	0.2	0.3	0.5	0.4	0.2	0.3	0.3	1.0
<b>Personal Income (YoY)</b>	5.7	5.8	5.7	5.6	5.4	4.9	4.9	4.8	4.4	4.7	4.8	4.8
<b>Personal Income, Ex. Transfers (MoM)</b>	0.5	0.6	0.3	0.3	0.3	0.5	0.6	0.5	0.3	0.5	0.4	0.7
<b>Wages &amp; Salaries Income (MoM)</b>	0.6	0.6	0.4	0.4	0.5	0.6	0.6	0.5	0.2	0.4	0.5	0.4
<b>Personal Spending (MoM)</b>	0.4	-0.1	0.4	0.2	0.4	0.6	0.3	0.7	0.1	0.4	0.7	0.2
<b>Personal Spending (YoY)</b>	7.6	6.3	6.1	5.9	5.3	5.9	5.4	5.5	5.0	5.5	5.9	4.5
<b>Durable Goods Spending (MoM)</b>	-0.5	-1.6	0.8	0.9	-0.4	0.6	-0.6	0.9	-1.0	0.2	1.1	-1.9
<b>Nondurable Goods Spending (MoM)</b>	0.7	-1.0	0.9	-0.3	0.4	0.6	1.4	0.7	-0.1	-0.3	0.5	-0.8
<b>Services Spending (MoM)</b>	0.4	0.5	0.3	0.3	0.6	0.6	0.1	0.7	0.4	0.6	0.7	1.0
<b>Real Disposable Personal Income (MoM)</b>	0.3	0.4	0.2	0.3	-0.1	0.0	0.1	-0.1	0.3	0.4	0.2	0.0
<b>Real Disposable Personal Income (YoY)</b>	3.5	4.4	4.5	5.0	5.3	4.4	4.1	3.9	3.9	4.3	4.2	2.1
<b>Real Personal Spending (MoM)</b>	0.1	-0.2	0.1	0.1	0.3	0.5	-0.1	0.4	0.1	0.4	0.6	-0.1
<b>Real Personal Spending (YoY)</b>	2.3	1.7	1.6	1.8	2.1	2.5	2.0	2.1	2.0	2.8	3.2	2.1
<b>PCE Deflator (YoY)</b>	5.2	4.4	4.4	4.0	3.2	3.3	3.3	3.4	3.0	2.7	2.6	2.4
<b>Core PCE Deflator (YoY)</b>	4.8	4.8	4.8	4.7	4.3	4.2	3.7	3.6	3.4	3.2	2.9	2.8
<b>Personal Saving Rate (%)</b>	4.7	5.2	5.2	5.3	4.8	4.4	4.5	3.9	4.1	4.1	3.7	3.8

Notes: MoM = Month-over-Month Percent Change  
YoY = Year-over-Year Percent Change

Source: U.S Department of Commerce and Wells Fargo Economics

Core PCE Deflator



Source: U.S. Department of Commerce and Wells Fargo Economics

## Consumers Back to Prioritizing Non-Discretionary Spending

Consumer spending rose 0.2% in nominal terms in January, but after adjusting for the largest monthly increase in prices since September, real spending actually fell 0.1%. The increase in real spending for December got a bump up to 0.6% in the revisions, which helps explain the upward revision to Q4 real personal consumption expenditures in yesterday's GDP revisions, but on balance today's report presents some downside risk to Q1 consumer spending estimates.

Critically, the composition of spending in January represents a pivot back toward non-discretionary categories (particularly services categories) at the expense of outlays in recreational categories ([chart](#)). In nominal terms the three biggest categories for spending gains were, in order: housing & utilities, financial services & insurance and healthcare. The only goods category to post a nominal gain in January was food and beverages.

The real eye-catcher in this morning's data was the 1.0% jump in personal income ([chart](#)), or the largest gain since the start of 2021 when pandemic-related stimulus was still funneling into the household sector. Wage growth remained strong last month, rising 0.4%, but notable gains in rental income (+1.6%) and receipts on assets (+2.1%) were major drivers of the overall gain.

We were ultimately braced for a large gain in income due to one-off mechanical adjustments made at the start of each year. That is, the January data bring some fresh estimates for income components worth noting like the cost-of-living adjustment to Social Security and adjustments to personal tax payments.

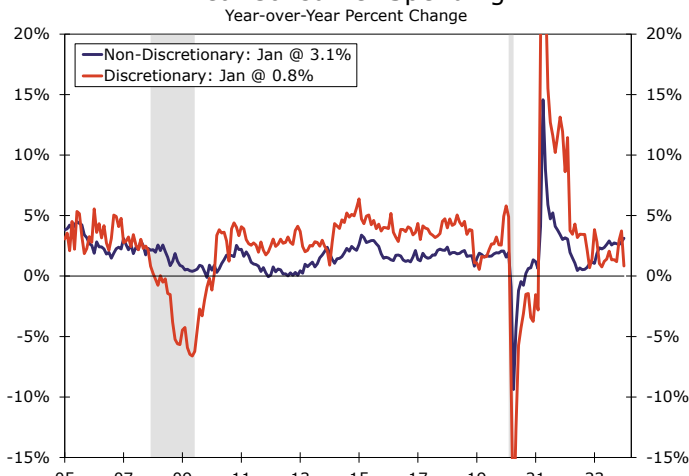
The cost-of-living adjustment (COLA) drove Social Security income up 3.5% in January. Despite Social Security representing only about 6% of total income, it accounted for 20% of the gain in overall income last month. The COLA will boost spending power for seniors who rely on this source of income, but it's a one-off adjustment, or level set higher, meaning the growth won't be sustained. Excluding social security, personal income still rose a strong 0.8% last month.

Tax payments also dented the real income situation last month. Ultimately the true household experience differs from BEA accounting when it comes to taxes. That is, the BEA accounts for tax collections evenly over the course of the year rather than specifically when households file their taxes (typically Feb-Apr). In recent years, this accounting methodology has come with revisions to taxes and has resulted in a large adjustment to taxes at the start of each year, which was the case again in this morning's data.

Current personal taxes rose \$166 billion and were a sizable drag on real disposable personal income, which declined a modest 0.02% last month. But remember there was no change to tax policy at the start of the year, so real income was likely not nearly as weak as the January data suggest.

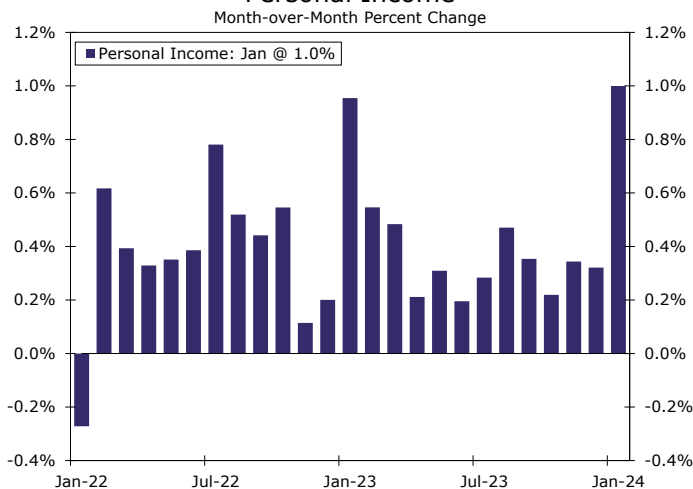
Yet the inflation problem is not yet completely eradicated and continues to dent purchasing power. The core PCE deflator rose 0.4% last month, marking the fastest pickup in a year, but the annual pace of core inflation still ticked down a tenth to 2.8% ([chart](#)). While the large monthly gain suggests rate cuts aren't imminent, the continued move back toward the Fed's 2% target is consistent with rate cuts appearing on the horizon. Ultimately we'd suggest you look through the January data. The 1% pop in income won't continue, and the gain in price growth is likely not the start of renewed sustained inflationary pressure. We expect consumer momentum remains intact and that a still-sturdy labor market should offer support to spending this year, even if that pace of spending is set to moderate. The upside of that moderation will be less demand-pull on inflation.

### Real Consumer Spending



Source: U.S. Department of Commerce and Wells Fargo Economics

### Personal Income



Source: U.S. Department of Commerce and Wells Fargo Economics

**Subscription Information**

To subscribe please visit: [www.wellsfargo.com/economicsemail](http://www.wellsfargo.com/economicsemail)

Via The Bloomberg Professional Services at WFRE

**Economics Group**

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

## Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation, offer or solicitation with respect to the purchase or sale of any security or other financial product, nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report or such earlier date as may be indicated for a particular price or forecast. The views and opinions expressed in this report are those of its named author(s) or, where no author is indicated, the Economics Group; such views and opinions are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report, and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks, and is a wholly-owned subsidiary of Wells Fargo & Company. © 2024 Wells Fargo Bank, N.A.

### Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Act for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in MiFID2. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE