Personal Income & Spending a Bright Spot in a Gloomy Week

Core PCE firmed to 1.6%; not enough to dissuade the Fed from rate cuts. Consumer spending was solid, and after accounting for revisions, PCE is now on track to come in north of 3% in Q2. Watch confidence for sustainability.

Firmer Inflation But Not Enough to Stay Fed’s Hand
- A softening in the core PCE deflator earlier this year was a big factor in the Fed’s shift to a more accommodative stance. That key measure of inflation rose to 1.6% today and the sequential increase in recent months suggests modestly firmer footing in Q2, though not enough to dissuade the Fed from cutting rates.
- Personal income notched a solid 0.5% percent increase in May and has increased in each of the past four months.

Solid Spending Despite Other Worries
- The backdrop for today’s print was not terribly encouraging. Consumer spending was downgraded to just 0.9% growth in Q1 with this week’s revision, and the Conference Board’s measure of consumer confidence fell to its lowest level since 2017.
- Despite all that, spending increased 0.4% in May. Although that was a tenth shy of consensus estimates, April’s personal spending was revised up by three tenths of a percentage point.

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