PANTHEON MACROECONOMICS

# Datanote: US Personal Income & Spending, January

## In one line: Still set for decent spending growth in Q1 overall, but a slowdown looms further ahead.

- Real consumption fell by 0.5%, well below the consensus, -0.1%. Net revisions were +0.1%.

- Nominal personal incomes leapt by 0.9%, well above the consensus, 0.4%. Net revisions were -0.2%.

- The core PCE deflator rose 0.3% in

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January, matching the consensus. Net revisions were 0.07%.

January's plunge in real expenditure was driven entirely by a pullback in spending on vehicles, after a combination of post-hurricane replacement purchases and some tariff-related pulling forward of demand lifted auto sales to very high levels in December. Adverse weather had a broadly neutral impact on overall expenditure, with weakness in spending on clothing and recreational goods offset by a pick-up in demand for heating energy.

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Real expenditure in January was still 0.2% above its Q4 average, despite the month-to-month drop. Meanwhile, private sector data show that auto sales recovered in February, while the further pick-up in commercial bank consumer credit lending in recent weeks suggests that many consumers still are bringing forward purchases of high-value imported goods due to the risk of tariffs. Accordingly, we still think that real expenditure is on course for decent quarter-on-quarter annualized growth of about 2-1/2% in Q1.

Growth in real after-tax incomes, however,

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looks set to slow from January's 0.6% pace, which was supported by one-time jumps in government transfers and dividends. Elevated economic policy uncertainty and federal job cuts will weigh on growth in wages and salaries, while increases in consumer prices will speed up for a while if additional tariffs are imposed in March or April. In addition, we doubt that the saving rate, which jumped to 4.6% in January, from 3.5% in December, will fall back below 4% on a sustained basis this year. Consumers' confidence now is well below levels in the past when the saving rate has been substantially below its recent

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norm. Accordingly, we continue to expect quarter-on-quarter annualized growth in real consumption to slow to just 1% in Q2 and 1-1/2% in Q3.

Meanwhile, the 0.28% increase in the core PCE deflator matched our forecast and reduced the inflation rate to 2.6%—the lowest since March 2021—from 2.9% in December. Residual seasonality in the CPI data mean that January's month-to-month increase overstates the underlying momentum in prices. Indeed, we provisionally look for a 0.2% increase in the core PCE deflator in February, constrained by a fall in used

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vehicle prices and a negligible increase in PPI portfolio management charges. That would reduce the inflation rate further, to 2.5%, and likely would ensure that most FOMC members continue to project two 25bp easings this year at their next meeting in mid-March. The big picture remains that core PCE inflation probably would converge considerably further towards the 2% target this year, if Mr. Trump ceased his tariff threats. But we are penciling-in a 0.5pp boost to the level of the core PCE deflator from tariffs, resulting from keeping the tariffs on imports from China at 10% and imposing a 25% tariff on all imports from Canada and

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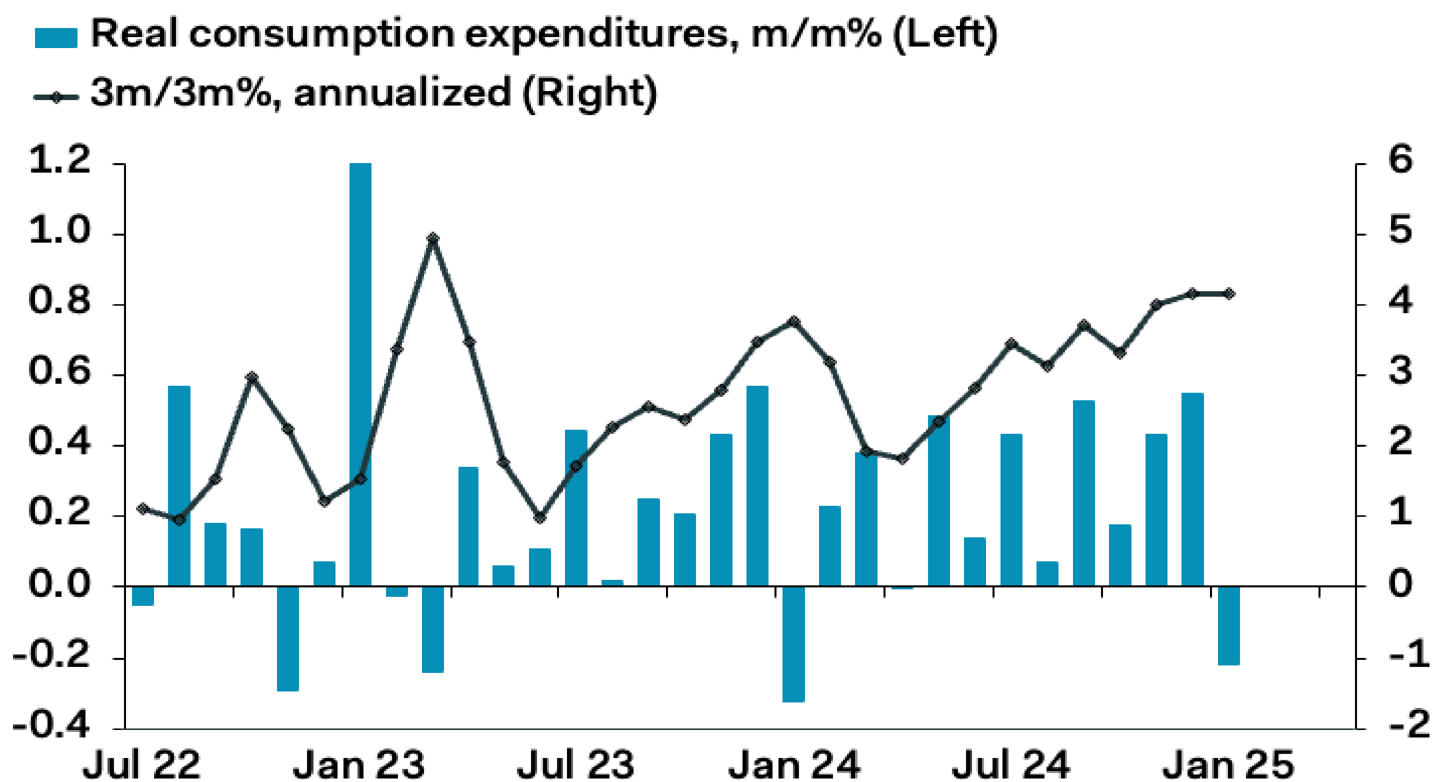
Mexico soon. As a result, we expect core PCE inflation to hover between 2.5% and 2.7% for the remainder of this year.

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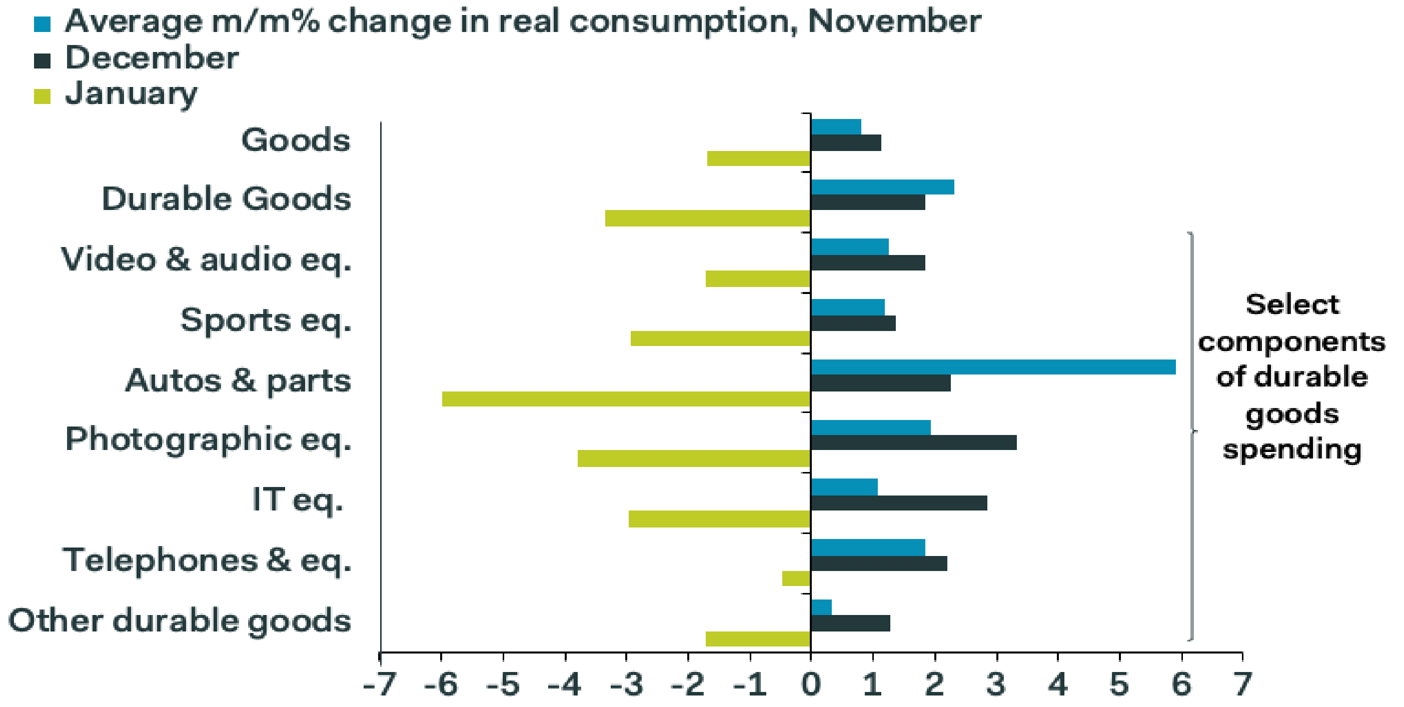


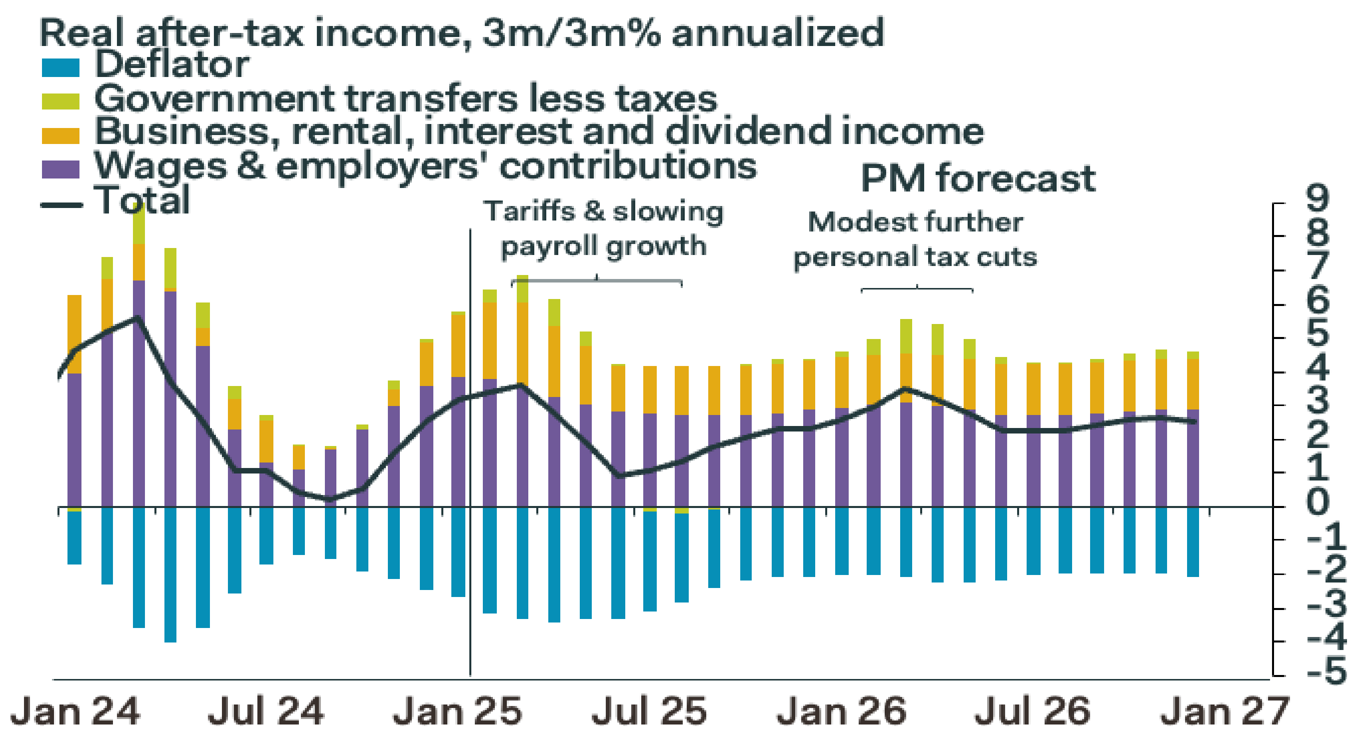


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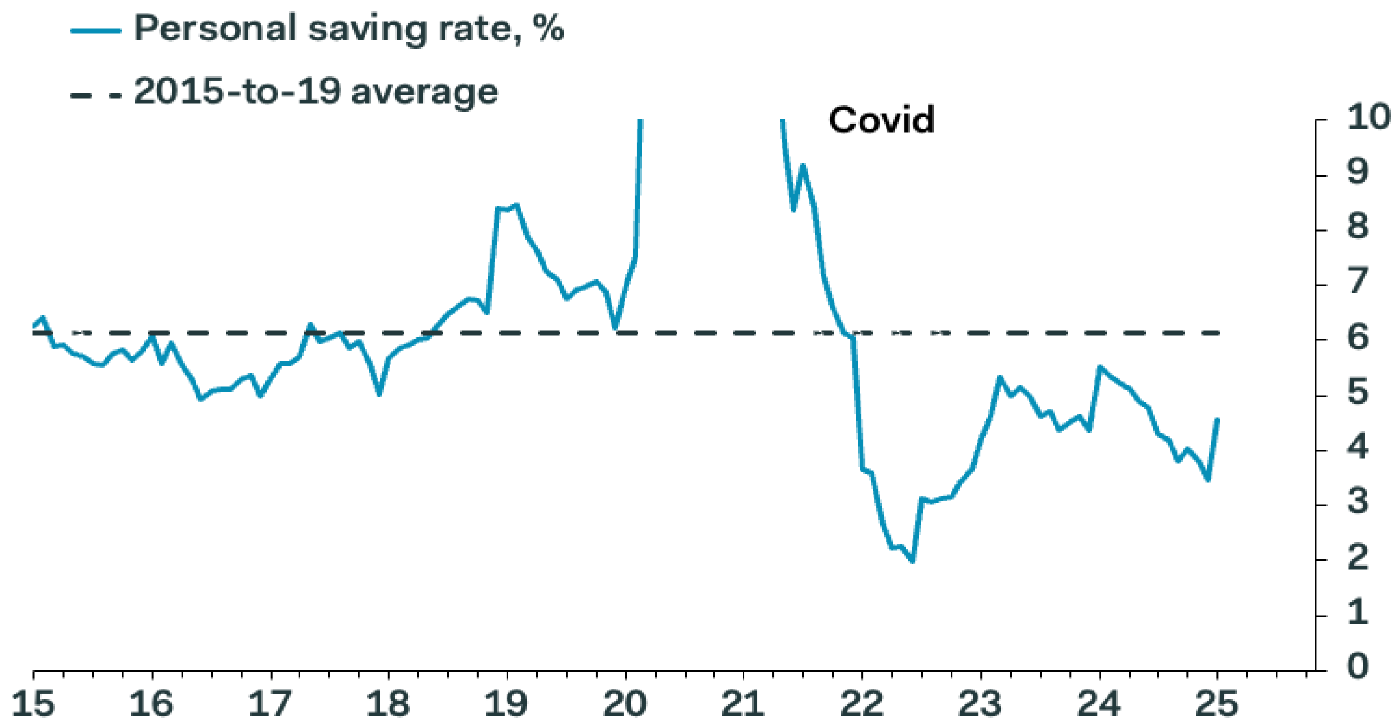


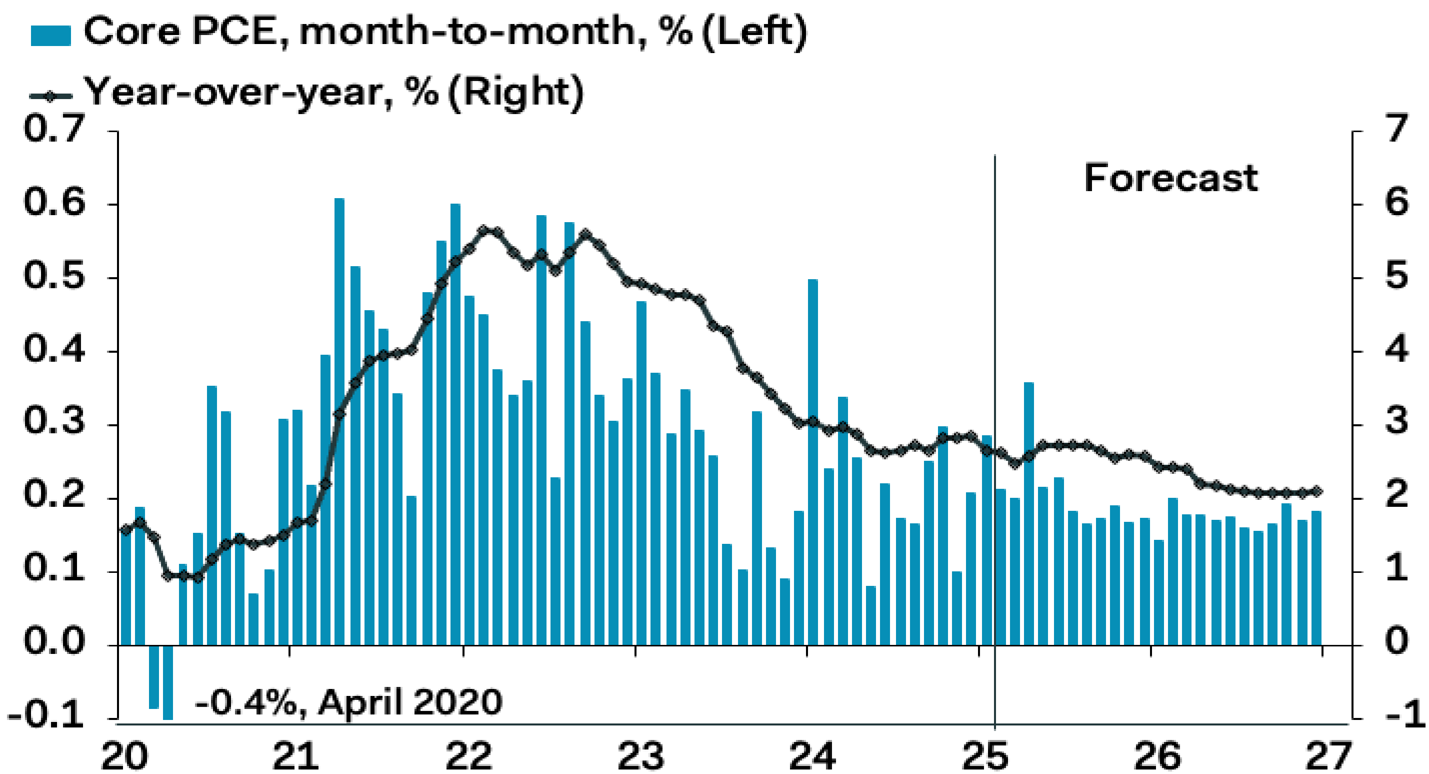


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