



The Daily Dish

A Bright Spot in the Consumer Outlook

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Friday the Bureau of Economic Analysis (BEA) released the May data for Personal Income and Outlays. In light of recent events, most of the attention was focused on the Fed's preferred measure of inflation – the growth in the Personal Consumption Expenditures (PCE) price index.

On this front, the [release](#) was a welcome non-event. PCE inflation was expected to be flat in May and up 2.6 percent year-over-year. That's exactly what the data showed. Similarly, core (non-food, non-energy) PCE inflation came in exactly as expected – up 0.1 percent for the month and 2.6 percent over May 2023. The details of the report were promising as well. Goods price inflation remains contained – deflation at a rate of 0.1 percent over the past year – and services inflation ticked down from 4.0 to 3.9 percent year over year.

No news is good news from a Fed that is committed to its current policy stance. The combination of rates held steady and lower inflation translates into a continued modest tightening of financial conditions, which it augments by continuing to shrink its portfolio.

Yet the lower inflation did translate into something that has been missing for months: a pop in real disposable income. As shown in the chart below (blue line, left axis), year-over-year growth in real disposable income – the cash flow available to support household spending – has been in steady decline since the middle of 2023. In particular, while nominal disposable income grew at 0.2 percent in February, 0.5 percent in March, and 0.3 percent in April, inflation ate away all those gains. As a result, real disposable income growth in those months had hovered around zero (orange line, right axis).

Friday's data showed real disposable income up 0.5 percent – a healthy 6 percent annual rate – and was accompanied by strong growth in real personal consumption spending of 0.3 percent (a 3.7 percent annual rate). The consumer has given forecasters a bit to worry about as 2024 has evolved. Friday's data was a welcome respite from the recent weak reports.

Percent Growth in Real Disposable Income

