

## US Watch

## Firm inflation but softer spending

**Confirmation of the detour in disinflation**

January headline and core PCE inflation were in line with expectations, confirming that disinflation has taken a detour to start 2024. Headline inflation rose by 0.3% m/m (0.34% unrounded), resulting in a two-tenth decline in the y/y rate to 2.4%. Core inflation, meanwhile, rose by 0.4% (0.41% unrounded), leading the y/y rate to edge down a tenth to 2.8%. Core goods prices continued to fall, owing to a drop in used cars; however, core services inflation accelerated. The key message from the inflation data is that work remains for the Fed.

**Spending growth slowed in January**

While inflation accelerated, consumer spending cooled off to start the year. Nominal personal spending rose by 0.2% m/m, in line with expectations, but real spending fell by 0.1% m/m. The decline in real spending was somewhat offset by an upward revision to December (0.6% versus 0.5% previously). The decline in real spending largely reflected a drop in goods, which could have been a function of inclement weather in January. Payback from favorable seasonal factors in December were likely another factor. In short, we are not too concerned about the decline in consumption, especially given strong hiring and income growth.

**Income growth supported by one-off surges**

Nominal personal income advanced by 1.0% m/m in January, a sizeable acceleration from the 0.3% m/m increase in December. However, part of the increase reflected one-off factors. First, dividend income rose by 4.1% m/m, owing to a special dividend from Costco. Second, transfer receipts spiked by 2.6% as social security payments rose by 3.5%. We saw the same shock to the level last January as cost-of-living adjustments have exceeded historical norms in recent years. After January, the increases were much more modest. As a result of these factors, we expect growth in income to moderate next month but to remain positive and support consumption.

**Fed implications: June is still the baseline**

Given that the inflation data were in line with our expectations, we make no changes to our monetary policy outlook. We continue to expect the Fed to start a gradual cutting cycle in June.

29 February 2024

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 PCE = Personal Consumption  
 Expenditure

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## Do not read too much into the surge in taxes

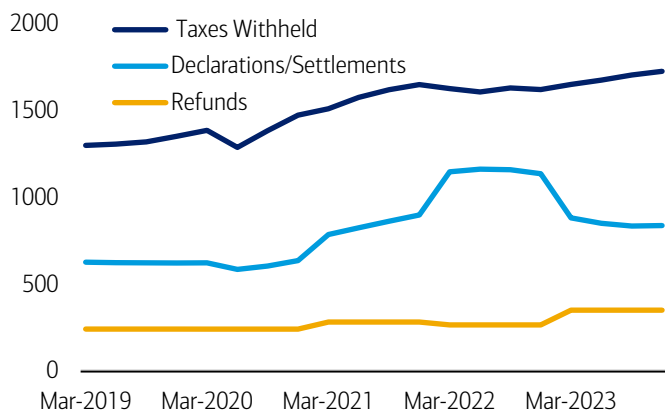
Personal current taxes also jumped in January, increasing by a staggering 6.0% m/m. We do not think that this reflects higher tax rates. Instead, it is likely due to a couple factors.

- First, the increase in dividend income is taxed as ordinary income, resulting in a higher share of taxes collected.
- Second, January is always a noisy time for the BEA's estimate of taxes collected. Each January, BEA incorporates assumptions based on tax refunds paid and settlements collected. So there is a step-up or step-down in tax collections each January (Exhibit 1).

We therefore recommend not reading too much into increase in tax collections. Households are not facing higher tax rates. If anything, the opposite is true, as tax brackets increased at the start of the year. That said, the increase in tax collections does suggest that revenues are likely to be stronger this year than last year, which could mean a sharper decline in the deficit and lower Treasury supply issuance.

### Exhibit 1: Quarterly Federal income taxes (\$mn, SAAR)

Estimates of personal income tax collections are subject to step-ups and step-downs in January

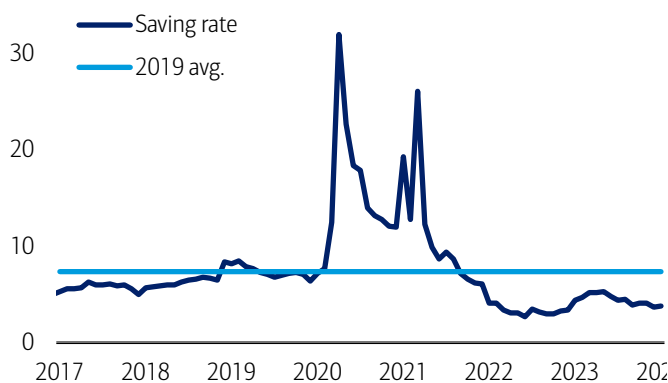


Source: Bureau of Economic Analysis (BEA)

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### Exhibit 2: Personal saving rate (% of disposable income)

The saving rate was 3.8% in January

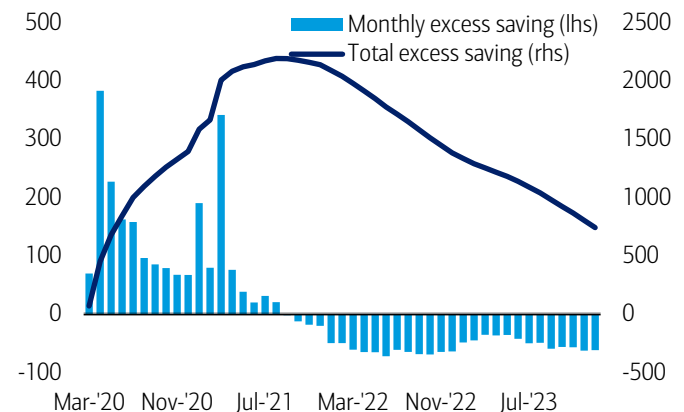


Source: Bureau of Economic Analysis (BEA)

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### Exhibit 3: Excess saving (\$bn)

We estimate that excess savings were around \$740bn in January

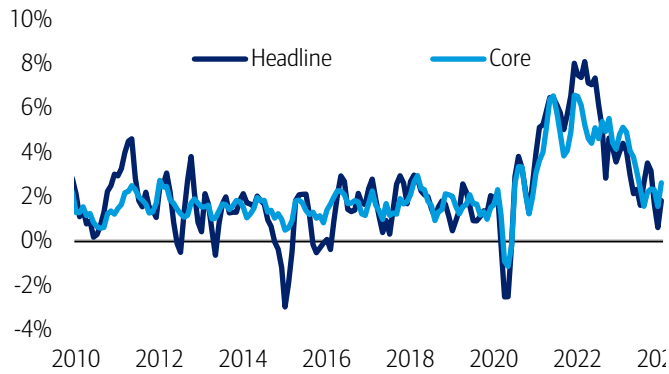


Source: BEA, Haver Analytics, BofA Global Research. Excess savings calculated by comparing actual savings to what savings would have been if the saving rate held at the 2019 average rate.

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**Exhibit 4: Headline and core PCE inflation (3m % change annualized)**

Headline PCE inflation is still below 2% on a 3-month (3m) annualized basis, but core inflation surged to 2.6% in January

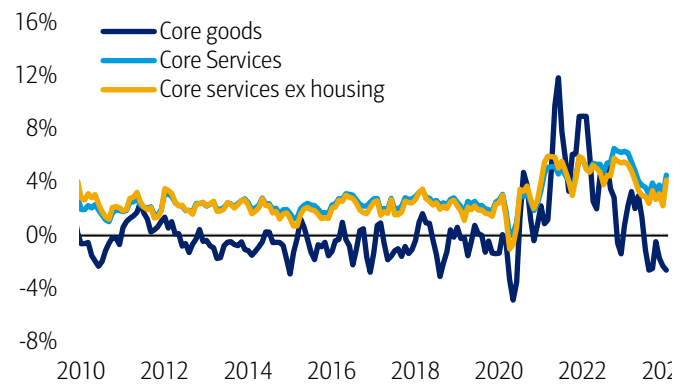


Source: BEA, Haver Analytics

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**Exhibit 5: Core goods, services, and services ex housing inflation (3m % change annualized)**

Core goods inflation is deeply negative on a 3-month basis

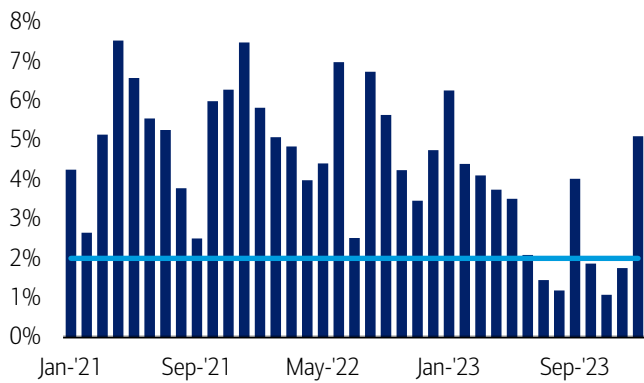


Source: BEA, Haver Analytics

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**Exhibit 6: Core PCE inflation (m/m annualized)**

Core PCE inflation surged above the 2% target in January



Source: BEA

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**Table 1: Real consumer spending heat map (% m/m)**

Real spending declined in January

| Jan 24 weight | PCE category                    | Jan 24 | Dec 23 | Nov 23 | Oct 23 | Sep 23 | Aug 23 | Jul 23 | Jun 23 | May 23 | Apr 23 | Mar 23 | Feb 23 |
|---------------|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 100.0%        | Headline PCE                    | -0.1%  | 0.6%   | 0.4%   | 0.1%   | 0.4%   | -0.1%  | 0.5%   | 0.3%   | 0.1%   | 0.1%   | -0.2%  | 0.1%   |
| 88.2%         | Core PCE                        | -0.2%  | 0.6%   | 0.5%   | 0.0%   | 0.4%   | 0.0%   | 0.4%   | 0.3%   | 0.2%   | 0.2%   | -0.4%  | 0.0%   |
| 22.5%         | Core goods                      | -1.3%  | 1.1%   | 0.6%   | -0.5%  | 1.0%   | -0.2%  | 1.3%   | 0.0%   | 0.4%   | 0.6%   | -1.4%  | -0.2%  |
| 11.4%         | Durable goods                   | -2.1%  | 1.5%   | 0.7%   | -0.8%  | 1.0%   | -0.3%  | 1.3%   | 0.0%   | 0.6%   | 0.7%   | -1.6%  | -0.3%  |
| 3.8%          | Motor vehicles & parts          | -3.7%  | 1.4%   | -0.7%  | -1.3%  | 1.7%   | -1.0%  | 1.2%   | -1.6%  | -1.0%  | -0.2%  | -2.0%  | 1.1%   |
| 2.5%          | Furnishings & durable HH equip. | -1.4%  | 0.8%   | 1.7%   | -0.9%  | 0.5%   | -0.8%  | 0.6%   | 1.1%   | 1.3%   | 0.8%   | -1.9%  | -2.1%  |
| 3.6%          | Recreational goods & vehicles   | -2.0%  | 2.4%   | 1.0%   | -0.4%  | 0.8%   | 0.5%   | 2.2%   | 0.9%   | 2.0%   | 1.6%   | -0.9%  | 0.0%   |
| 1.5%          | Other durable goods             | 0.6%   | 0.9%   | 1.9%   | -0.2%  | 0.9%   | 0.6%   | 0.7%   | 0.1%   | 0.7%   | 0.5%   | -1.3%  | -1.6%  |
| 11.1%         | Core nondurable goods           | -0.4%  | 0.7%   | 0.6%   | -0.2%  | 1.0%   | -0.1%  | 1.2%   | 0.1%   | 0.1%   | 0.6%   | -1.3%  | -0.2%  |
| 2.8%          | Clothing & footwear             | 0.7%   | 1.4%   | 0.9%   | -0.4%  | 0.3%   | -0.1%  | 1.7%   | -0.3%  | 0.1%   | 0.1%   | -2.0%  | -1.5%  |
| 8.3%          | Other nondurable goods          | -0.8%  | 0.4%   | 0.4%   | -0.1%  | 1.2%   | -0.1%  | 1.1%   | 0.2%   | 0.1%   | 0.8%   | -1.0%  | 0.3%   |
| 65.7%         | Core services                   | 0.2%   | 0.4%   | 0.4%   | 0.2%   | 0.2%   | 0.0%   | 0.1%   | 0.3%   | 0.1%   | 0.1%   | 0.0%   | 0.0%   |
| 15.5%         | Housing                         | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   | 0.1%   |
| 50.2%         | Core services ex housing        | 0.3%   | 0.5%   | 0.5%   | 0.2%   | 0.3%   | 0.0%   | 0.1%   | 0.4%   | 0.1%   | 0.1%   | 0.0%   | 0.0%   |
| 16.3%         | Health care                     | -0.3%  | 0.5%   | 0.4%   | 0.6%   | 0.5%   | 0.2%   | 0.2%   | 0.1%   | 0.1%   | -0.1%  | 0.5%   | 0.9%   |
| 3.3%          | Transportation services         | 0.3%   | 1.3%   | -0.9%  | -0.2%  | 1.3%   | 0.6%   | -0.3%  | -1.0%  | 1.2%   | 1.1%   | -1.1%  | 0.1%   |
| 3.9%          | Recreation services             | -0.3%  | 1.1%   | 0.9%   | 0.6%   | -0.9%  | 0.2%   | 0.2%   | 1.6%   | -1.5%  | 1.4%   | -0.7%  | -0.3%  |
| 7.5%          | Food services & accommodations  | 0.2%   | 0.0%   | 1.0%   | 0.4%   | 1.1%   | 0.3%   | 0.7%   | 0.4%   | 0.6%   | 0.2%   | -0.4%  | -2.2%  |
| 7.2%          | Financial services & insurance  | 0.7%   | 1.2%   | 0.9%   | -0.6%  | -1.2%  | -0.8%  | 0.1%   | 1.7%   | -0.1%  | 0.5%   | 0.0%   | 0.3%   |
| 0.7%          | Water supply & sanitation       | 0.0%   | 0.2%   | 0.3%   | 0.5%   | 0.0%   | -0.1%  | -0.2%  | -0.1%  | -0.2%  | -0.3%  | 0.2%   | 0.4%   |
| 8.2%          | Other services                  | -0.3%  | 0.2%   | 0.5%   | 0.2%   | 1.2%   | -0.8%  | -0.8%  | 0.2%   | 0.2%   | -1.2%  | 0.2%   | 0.5%   |
| 3.0%          | Final consumption exp. of NPISH | 1.9%   | 0.1%   | 0.1%   | -0.6%  | -1.3%  | 1.0%   | 0.3%   | -0.1%  | 0.6%   | 0.4%   | -0.8%  | -1.5%  |
| 11.8%         | Non-core PCE                    | 0.3%   | 0.2%   | -0.1%  | 0.4%   | -0.2%  | -0.2%  | 1.1%   | 0.2%   | -0.3%  | -0.4%  | 1.2%   | 0.7%   |
| 7.7%          | Food                            | -0.2%  | 0.3%   | 0.4%   | 0.0%   | 0.1%   | -0.2%  | 0.4%   | 0.1%   | 0.2%   | 0.4%   | -0.6%  | 0.1%   |
| 4.1%          | Energy goods & services         | 1.2%   | 0.0%   | -1.0%  | 1.1%   | -0.7%  | -0.2%  | 2.5%   | 0.4%   | -1.4%  | -1.8%  | 4.5%   | 1.9%   |
| 4.1%          | Energy goods & services         | 1.2%   | 0.0%   | -1.0%  | 1.1%   | -0.7%  | -0.2%  | 2.5%   | 0.4%   | -1.4%  | -1.8%  | 4.5%   | 1.9%   |

Source: BEA, Haver

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**Exhibit 7: Personal income and spending**

## Summary table

|  | Jan-24 | Dec-23 | Nov-23 | Oct-23 | Sep-23 | Aug-23 | Jul-23 | Jun-23 | May-23 | Apr-23 | Mar-23 | Feb-23 | Jan-23 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Personal income</b>                       |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 1.0%   | 0.3%   | 0.3%   | 0.2%   | 0.4%   | 0.5%   | 0.3%   | 0.2%   | 0.3%   | 0.2%   | 0.5%   | 0.5%   | 1.0%   |
| %y/y   | 4.8%   | 4.8%   | 4.7%   | 4.4%   | 4.8%   | 4.9%   | 4.9%   | 5.4%   | 5.6%   | 5.7%   | 5.8%   | 5.7%   | 5.8%   |
| <b>Compensation of employees</b>             |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.4%   | 0.5%   | 0.4%   | 0.2%   | 0.4%   | 0.5%   | 0.5%   | 0.5%   | 0.4%   | 0.4%   | 0.5%   | 0.6%   | 1.5%   |
| %y/y   | 5.5%   | 6.7%   | 6.3%   | 5.8%   | 5.3%   | 5.6%   | 5.8%   | 6.6%   | 6.5%   | 6.3%   | 6.1%   | 5.9%   | 5.9%   |
| <b>Wages and salaries</b>                    |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.4%   | 0.5%   | 0.4%   | 0.2%   | 0.5%   | 0.6%   | 0.6%   | 0.5%   | 0.4%   | 0.4%   | 0.6%   | 0.6%   | 1.6%   |
| %y/y   | 5.7%   | 7.0%   | 6.5%   | 5.9%   | 5.4%   | 5.8%   | 6.0%   | 6.9%   | 6.8%   | 6.6%   | 6.4%   | 6.2%   | 6.1%   |
| <b>Disposable personal income</b>            |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.3%   | 0.3%   | 0.4%   | 0.3%   | 0.3%   | 0.4%   | 0.2%   | 0.1%   | 0.4%   | 0.5%   | 0.6%   | 0.6%   | 2.6%   |
| %y/y   | 4.5%   | 7.0%   | 7.1%   | 7.0%   | 7.4%   | 7.6%   | 7.9%   | 8.7%   | 9.1%   | 9.2%   | 9.0%   | 8.9%   | 8.9%   |
| <b>Personal consumption expenditure</b>      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.2%   | 0.7%   | 0.4%   | 0.1%   | 0.8%   | 0.3%   | 0.6%   | 0.4%   | 0.2%   | 0.4%   | -0.1%  | 0.4%   | 1.6%   |
| %y/y   | 4.5%   | 5.9%   | 5.5%   | 5.0%   | 5.5%   | 5.4%   | 5.9%   | 5.3%   | 5.9%   | 6.1%   | 6.3%   | 7.6%   | 7.9%   |
| <b>Goods</b>                                 |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -1.2%  | 0.7%   | -0.1%  | -0.4%  | 0.8%   | 0.7%   | 0.6%   | 0.1%   | 0.1%   | 0.8%   | -1.2%  | 0.3%   | 2.6%   |
| %y/y   | 1.0%   | 4.8%   | 3.5%   | 2.2%   | 3.4%   | 3.0%   | 2.7%   | 1.4%   | 2.5%   | 2.6%   | 2.3%   | 5.3%   | 5.4%   |
| <b>Durable goods</b>                         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -1.9%  | 1.1%   | 0.2%   | -1.0%  | 0.9%   | -0.6%  | 0.6%   | -0.4%  | 0.9%   | 0.8%   | -1.6%  | -0.5%  | 5.2%   |
| %y/y   | -1.7%  | 5.5%   | 4.0%   | 0.9%   | 2.6%   | 2.2%   | 3.8%   | 3.7%   | 4.4%   | 1.9%   | 2.4%   | 4.4%   | 3.7%   |
| <b>Nondurable goods</b>                      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -0.8%  | 0.5%   | -0.3%  | -0.1%  | 0.7%   | 1.4%   | 0.6%   | 0.4%   | -0.3%  | 0.9%   | -1.0%  | 0.7%   | 1.1%   |
| %y/y   | 2.5%   | 4.5%   | 3.2%   | 3.0%   | 3.8%   | 3.5%   | 2.1%   | 0.1%   | 1.5%   | 3.0%   | 2.3%   | 5.9%   | 6.3%   |
| <b>Services</b>                              |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 1.0%   | 0.7%   | 0.6%   | 0.4%   | 0.7%   | 0.1%   | 0.6%   | 0.6%   | 0.3%   | 0.3%   | 0.5%   | 0.4%   | 1.1%   |
| %y/y   | 6.3%   | 6.5%   | 6.6%   | 6.4%   | 6.6%   | 6.7%   | 7.6%   | 7.4%   | 7.6%   | 7.9%   | 8.4%   | 8.8%   | 9.3%   |
| <b>Saving rate (%)</b>                       |        |        |        |        |        |        |        |        |        |        |        |        |        |
|  | 3.8    | 3.7    | 4.1    | 4.1    | 3.9    | 4.5    | 4.4    | 4.8    | 5.3    | 5.2    | 5.2    | 4.7    | 4.4    |
| <b>PCE inflation</b>                         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.3%   | 0.1%   | 0.0%   | 0.0%   | 0.4%   | 0.4%   | 0.1%   | 0.2%   | 0.1%   | 0.3%   | 0.1%   | 0.3%   | 0.6%   |
| %y/y   | 2.4%   | 2.6%   | 2.7%   | 3.0%   | 3.4%   | 3.3%   | 3.3%   | 3.2%   | 4.0%   | 4.4%   | 4.4%   | 5.2%   | 5.5%   |
| <b>Core PCE inflation</b>                    |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.4%   | 0.1%   | 0.1%   | 0.2%   | 0.3%   | 0.1%   | 0.1%   | 0.2%   | 0.3%   | 0.3%   | 0.3%   | 0.4%   | 0.5%   |
| %y/y   | 2.8%   | 2.9%   | 3.2%   | 3.4%   | 3.6%   | 3.7%   | 4.2%   | 4.3%   | 4.7%   | 4.8%   | 4.8%   | 4.8%   | 4.9%   |
| <b>Billions of Chained 2012 Dollars</b>      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| <b>Personal income</b>                       |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.7%   | 0.2%   | 0.4%   | 0.2%   | 0.0%   | 0.1%   | 0.2%   | 0.0%   | 0.2%   | -0.1%  | 0.4%   | 0.2%   | 0.4%   |
| %y/y   | 2.4%   | 2.1%   | 1.9%   | 1.4%   | 1.4%   | 1.5%   | 1.5%   | 2.2%   | 1.6%   | 1.2%   | 1.3%   | 0.5%   | 0.3%   |
| <b>Personal income ex transfer payments</b>  |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.3%   | 0.2%   | 0.5%   | 0.3%   | 0.1%   | 0.2%   | 0.3%   | 0.1%   | 0.2%   | 0.0%   | 0.4%   | 0.2%   | 0.6%   |
| %y/y   | 2.9%   | 3.2%   | 3.0%   | 2.3%   | 1.8%   | 1.9%   | 2.0%   | 2.6%   | 2.1%   | 1.8%   | 1.8%   | 1.0%   | 0.6%   |
| <b>Disposable personal income per capita</b> |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -0.1%  | 0.1%   | 0.3%   | 0.2%   | -0.1%  | 0.0%   | 0.0%   | -0.1%  | 0.3%   | 0.2%   | 0.4%   | 0.3%   | 2.0%   |
| %y/y   | 1.6%   | 3.7%   | 3.7%   | 3.4%   | 3.4%   | 3.6%   | 3.9%   | 4.8%   | 4.5%   | 4.0%   | 3.9%   | 3.0%   | 2.8%   |
| <b>Personal consumption expenditures</b>     |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -0.1%  | 0.6%   | 0.4%   | 0.1%   | 0.4%   | -0.1%  | 0.5%   | 0.3%   | 0.1%   | 0.1%   | -0.2%  | 0.1%   | 1.0%   |
| %y/y   | 2.1%   | 3.2%   | 2.8%   | 2.0%   | 2.1%   | 2.0%   | 2.5%   | 2.1%   | 1.8%   | 1.6%   | 1.7%   | 2.3%   | 2.3%   |
| <b>Goods</b>                                 |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -1.1%  | 0.9%   | 0.4%   | -0.2%  | 0.6%   | -0.1%  | 0.9%   | 0.2%   | 0.2%   | 0.5%   | -1.0%  | 0.1%   | 2.0%   |
| %y/y   | 1.5%   | 4.7%   | 3.6%   | 2.0%   | 2.5%   | 2.3%   | 2.9%   | 1.8%   | 1.3%   | 0.4%   | 0.4%   | 1.7%   | 0.9%   |
| <b>Durable goods</b>                         |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -2.1%  | 1.5%   | 0.7%   | -0.8%  | 1.0%   | -0.3%  | 1.3%   | 0.0%   | 0.6%   | 0.7%   | -1.6%  | -0.3%  | 5.0%   |
| %y/y   | 0.7%   | 8.0%   | 6.2%   | 3.1%   | 5.1%   | 4.1%   | 4.8%   | 4.3%   | 4.0%   | 1.4%   | 2.0%   | 4.1%   | 3.1%   |
| <b>Nondurable goods</b>                      |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | -0.5%  | 0.6%   | 0.3%   | 0.2%   | 0.4%   | 0.0%   | 0.7%   | 0.3%   | 0.0%   | 0.5%   | -0.7%  | 0.3%   | 0.4%   |
| %y/y   | 2.0%   | 2.9%   | 2.1%   | 1.4%   | 1.1%   | 1.3%   | 1.9%   | 0.4%   | -0.1%  | -0.1%  | -0.5%  | 0.4%   | -0.4%  |
| <b>Services</b>                              |        |        |        |        |        |        |        |        |        |        |        |        |        |
| %m/m   | 0.4%   | 0.4%   | 0.4%   | 0.2%   | 0.2%   | 0.0%   | 0.3%   | 0.3%   | 0.1%   | -0.1%  | 0.2%   | 0.0%   | 0.5%   |
| %y/y   | 2.3%   | 2.5%   | 2.3%   | 2.0%   | 1.9%   | 1.8%   | 2.3%   | 2.2%   | 2.1%   | 2.2%   | 2.5%   | 2.6%   | 3.1%   |

Source: BEA, Haver Analytics, BofA Global Research

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