

**AGRON NICAJ**  
US Economist

Economic Research Office

T: +1 (646) 357 6180  
E: anicaj@us.mufg.jp

**MUFG Bank, Ltd.**  
A member of MUFG, a global financial group

## Persistently high aggregate demand

November 27, 2024

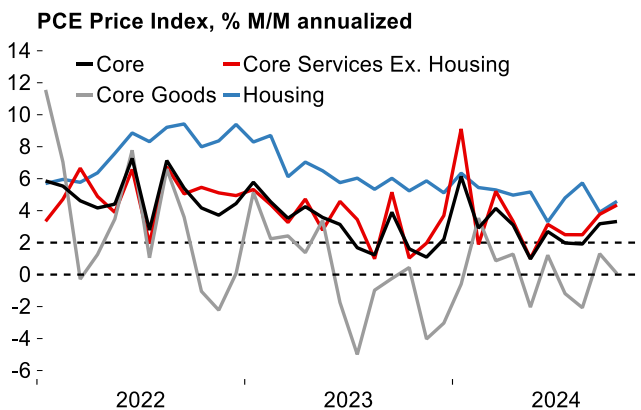
- Core PCE inflation edged up in October on a monthly growth basis. Core services prices accelerated, both for housing and non-housing components, while core good prices fell back down to near 0% growth. With the possibility of increased tariffs under Trump’s second administration, the outlook on inflation remains uncertain.
- Real spending growth continued in October, supported by strong growth in real disposable personal incomes. Monthly jobs growth is expected to recover in Q4 from the lows experienced over the summer, and consumers are expected to continue robust spending habits. Aggregate demand in the US is still very likely high, with spending growth continuing to defy expectations and corporate profit margins re-approaching historical highs. Combined with fiscal policy uncertainty, the Fed may need to alter their originally guided path of rate cuts.

### Inflation and incomes tick up

Annual core PCE inflation came in at 2.8% in October, up from 2.7% in September. On an annualized monthly basis, inflation rose to 3.3% this month, up from 3.2% in September (Chart 1). The slight acceleration in growth was driven by core services components, with housing prices growing at an annual rate of 4.6%, compared to 3.9% last month, and non-housing core services (i.e., “super-core”) growing at an annual rate of 4.4%, up from 3.8% last month. Growth in overall core prices was partially offset by disinflation of core goods, with annualized monthly inflation falling to 0.1% in October.

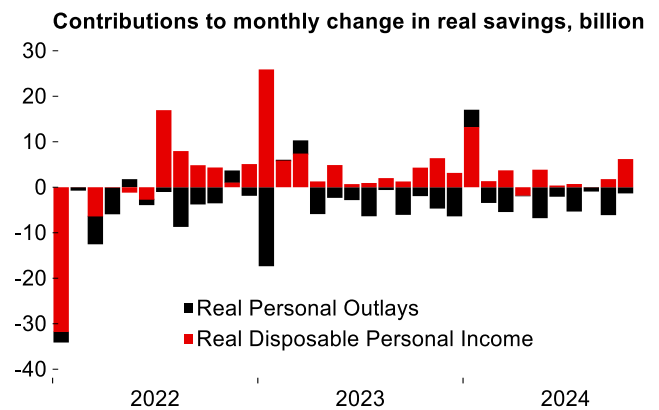
Price growth has certainly picked up since trending along the Fed’s 2% target through the summer months. Though two months of accelerated growth doesn’t necessarily constitute a trend, it does raise the possibility of a more hawkish Fed.

**Chart 1: Core services and housing inflation picked up in October, while core goods dropped**



Source: BEA, MUFG Bank Economic Research Office

**Chart 2: Strong growth in disposable incomes from accelerated jobs growth will support continued spending**



Source: BEA, MUFG Bank Economic Research Office

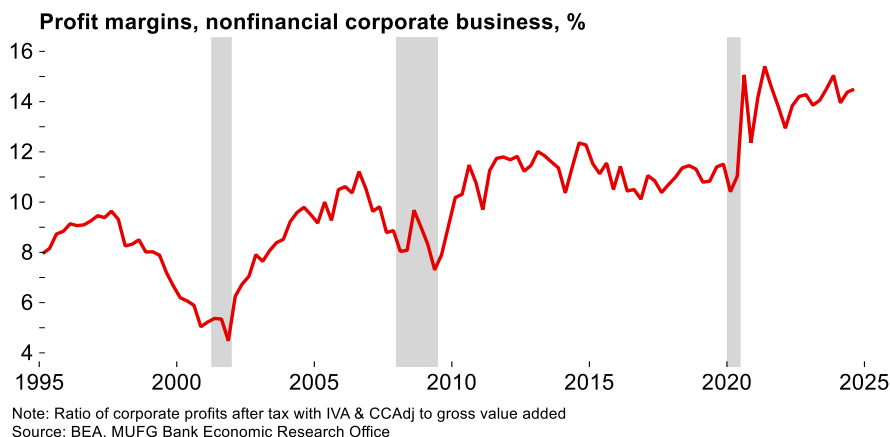
Aggregate demand is still very likely to be high in the US, highlighted by continued growth in consumer spending. In October, real personal consumption expenditures rose by 0.1%, less robust than last month but growth was positive in both goods and services spending categories. More substantial was growth in household incomes, with real disposable personal income growing by 0.4% in October, the highest monthly growth since January 2024 (Chart 2).

Monthly jobs growth is expected to pick up in Q4, supporting continued growth in real compensation and subsequent consumer spending. This, in and of itself, doesn't mean prices will continue to accelerate, but it does suggest that demand in the economy is strong despite the high interest rate level. The extent to which the Fed will cut rates has become less certain on this alone, and now combined with the possibility of tariffs under Trump's second administration, the FOMC is expected to have a more hawkish tone.

Chairman Powell has stated, both directly and indirectly, that the Fed will avoid acting proactively on matters of both trade and fiscal policy. Rather, they will wait for clear signals and effectively, continue to "follow the data." Though with that being the case, the current data does not warrant aggressive rate cuts. Shown in Chart 3, corporate profit margins inched up in Q3 and they remain elevated near historical highs. Broadly speaking, companies are not in a position where they need to implement cost cutting measures and reduce their respective number of employees. This should, at the very least, temper expectations of large-scale layoff driven growth in unemployment.

How exactly the Fed reacts to potential changes in tariffs and trade policy remains to be seen, but there is an expectation that the policy rate doesn't fall below 3% in the near future, reflecting a slightly higher neutral rate.

**Chart 3: Corporate profit margins inched up in Q3 and remain close to historical highs**



## Analyst Certification

The views expressed in this report solely reflect the personal views of Agron Nicaž, the primary analyst responsible for this report, about the subject securities or issuers referred to herein, and such views may not necessarily reflect the thoughts and opinions of MUFG Bank, Ltd. and its affiliates or management team. No part of such analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed herein.

## Disclaimers

The information and views contained herein are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject MUFG Bank, Ltd. (collectively with its various offices and affiliates, "MUFG Bank") to any registration requirement within such jurisdiction or country. The information and views contained herein are provided for general informational purposes only, are subject to change, and are not intended to be, nor should be used, or considered, as an offer, or the solicitation of an offer, to sell or to buy or to subscribe to or for securities or any other financial instruments, and do not constitute specific investment, legal, tax or other advice or recommendations. The information contained herein reflects the thoughts and opinions of the noted authors only, and such information does not necessarily reflect the thoughts and opinions of MUFG or its management team. Neither this nor any other communication prepared by MUFG Bank should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective and it does not take into account the specific investment objectives, financial situation, or the particular needs of any specific person who may receive this information. Any information relating to performance contained herein is illustrative and no assurance is given that any indicative returns, performance or results, whether historical or hypothetical, will be achieved. Before entering into any particular transaction, you should consult an independent financial, legal, accounting, tax, or other advisor as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting, or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements contained herein, and any assumptions on which such statements are based, are in each case accurate, neither the authors nor MUFG have independently verified its accuracy, and such information may be incomplete or condensed. The information is provided "AS IS". The authors and MUFG do not warrant the accuracy of the materials provided herein, either expressly or implied, for any particular purpose and expressly disclaims any warranties of merchantability or fitness for a particular purpose. The authors and MUFG cannot and do not guarantee the accuracy, validity, timeliness or completeness of any information or data made available to you for any particular purpose. MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information and views contained herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention.

© 2024, MUFG Bank, Ltd. All Rights Reserved.

## About MUFG and MUFG Americas

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with over 360 years of history, MUFG has a global network with approximately 2,000 locations in more than 40 countries. MUFG has nearly 120,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges.

MUFG's Americas operations, including its offices in the U.S., Latin America, and Canada, are primarily organized under MUFG Bank, Ltd. and subsidiaries, and are focused on Global Corporate and Investment Banking, Japanese Corporate Banking, and Global Markets. MUFG is one of the largest foreign banking organizations in the Americas. For locations, banking capabilities and services, career opportunities, and more, visit [www.mufgamericas.com](http://www.mufgamericas.com).