ECONOMIC UPDATE
REGIONS
May 26, 2023

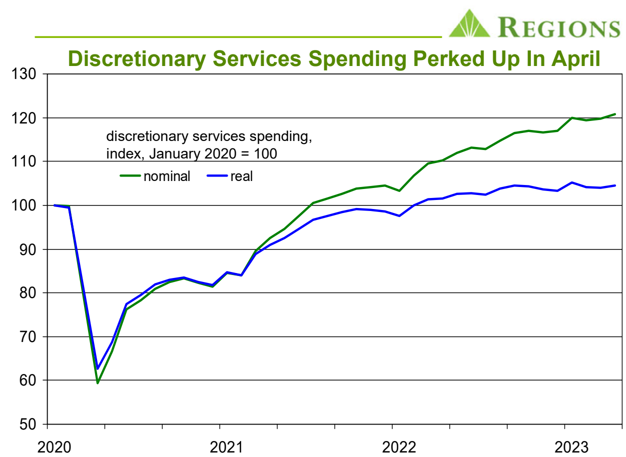
April Personal Income & Spending; April PCE Deflator; April Durable Goods Orders

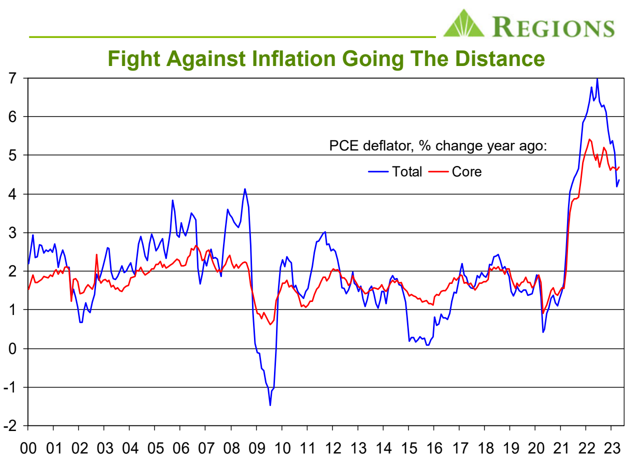
Personal Income/Spending: Total personal income rose by 0.4 percent in April, matching what we and the consensus forecast expected. Asset-based income (dividends & interest), rental income, and private sector wage and salary earnings were the drivers of April income growth, more than offsetting further weakness in both farm and nonfarm proprietors' income and a drop in transfer payments. Private sector wage and salary earnings were up by 0.5 percent in April, but the bigger story here is the harsh downward revision to prior estimates of growth over Q4 2022 and Q1 2023, as incorporated into yesterday's release of the revised Q1 GDP data. Prior estimates showed average monthly increases of 0.46 percent over this period, but the revised data show average monthly increases of just 0.14 percent. Though still outpacing inflation, over-the-year growth in private sector wage and salary earnings is now reported to be meaningfully slower than had been reported, which matters as this is far and away the biggest individual component of personal income. We've for months flagged weakness in nonfarm proprietors' income, a proxy for small business profits, as a point of concern. Lacking the pricing power enjoyed by larger corporations, smaller businesses have been struggling in a higher-cost environment, and this seems unlikely to change soon.

Total personal spending rose by 0.8 percent in April, topping our above-consensus forecast of a 0.6 percent increase. As we suspected would be the case, spending in key categories, including motor vehicles, gasoline, and household furnishings, as reported in the BEA's data outperformed those categories as reported in the data on April retail sales. What did surprise us, however, was the strength of discretionary services spending, which was up by 0.9 percent on a nominal basis and by 0.6 percent after adjusting for inflation. The April numbers are surprising given that real spending on discretionary services had fallen in six of the past seven months, and with consumer sentiment sagging, we had expected another weak print in April. Sure, this could just be another reinforcement of the old "watch what they do not what they say" adage about U.S. consumers, but this bears watching in the months ahead, particularly given a series of reports on how strong the summer travel season is shaping up to be.

PCE Deflator: The total PCE Deflator and the core PCE Deflator were both up by 0.4 percent in April, hotter than the 0.3 percent print on each that we and the consensus expected. On an over-the-year basis, the total PCE Deflator is up 4.4 percent and the core PCE Deflator is up 4.7 percent as of April. The FOMC will be discouraged by the April prints, with both headline and core PCE inflation ticking up from the March prints. Core goods prices were up by 0.2 percent in April, but this is largely a function of the implausibly large 4.5 percent increase in prices for used motor vehicles. Outside of used vehicles, core goods prices were basically flat. The bigger story, however, is that core services prices were up by 0.5 percent and tossing out housing costs leaves core services prices up 0.4 percent, up 4.6 percent year-on-year. This is the component that the FOMC is placing the most emphasis on, with many Committee members believing there to be a strong link between labor costs and prices for core services outside of housing. The April data won't help the cause of those arguing for the FOMC to pause its run of Fed funds rate hikes at next month's meeting. While that still may happen, unless and until there is more meaningful and sustained progress against core inflation, it would be unwise to think that, June pause or not, the FOMC is finished raising the funds rate, and even more unwise to think that the FOMC will be cutting the funds rate this year.

Durable Goods Orders: Orders for durable manufactured goods rose by 1.1 percent in April, with ex-transportation orders falling by 0.2 percent and orders for core capital goods up by 1.4 percent. This was a much stronger report than we had expected, particularly the increase in core capital goods orders, a leading indicator of business investment in equipment and machinery as reported in the GDP data. A spike in defense capital goods, up by 36.1 percent in April, boosted headline orders. The much bigger support came from the growth in orders for core capital goods (nondefense capital goods excluding aircraft & parts), which was led by a 1.8 percent increase in computers and related products and a 1.0 percent increase in machinery orders. It isn't the April increase that is surprising, rather, it is the magnitude of that increase. We've been pointing to the marked weakening in core capital goods orders since late last year, and business investment in equipment has been a drag on real GDP in each of the past two quarters. We will, however, caution that the April increase is very narrowly based, which makes us skeptical as to whether it will be sustained. As such, we retain a negative outlook on business capital spending over coming months.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com