ECONOMIC UPDATE
REGIONS
May 31, 2024

April Personal Income/Spending: Discretionary Services Spending Continues To Soften

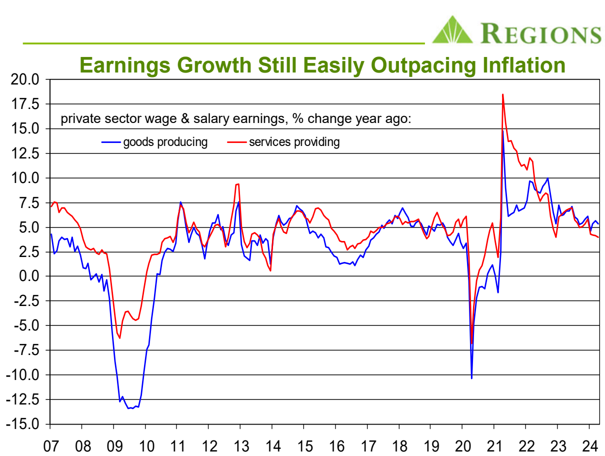
- Personal income rose by 0.3 percent in April, personal spending rose by 0.2 percent, and the saving rate was unchanged at 3.6 percent
- The PCE Deflator rose by 0.3 percent and the core PCE Deflator rose by 0.2 percent in April; on an over-the-year basis, the PCE Deflator is up 2.7 percent and the core PCE Deflator is up 2.8 percent

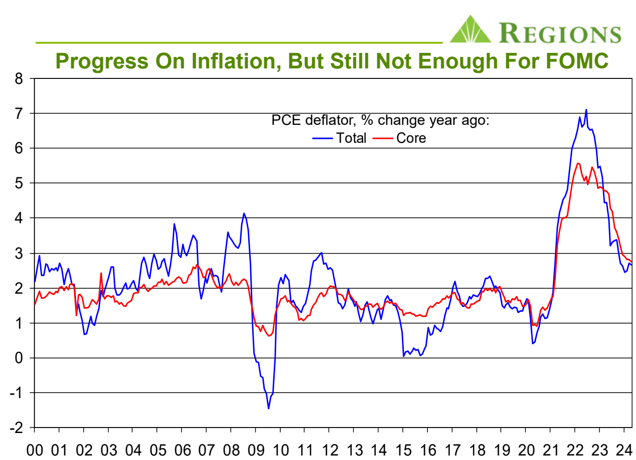
Total personal income rose by 0.3 percent in April, matching what we and the consensus expected, while personal spending rose by 0.2 percent, shy of expectations. The personal saving rate held steady at 3.6 percent in April. What for many were the most anticipated metrics in the April data, i.e., the prints on the headline and core PCE Deflator, came in as generally expected. The PCE Deflator was up by 0.3 percent while the core PCE Deflator was up by 0.2 percent (our forecast anticipated 0.2 percent increases in each), which translate into year-on-year increases of 2.7 percent and 2.8 percent, respectively. While the markets may have breathed a collective sigh of relief as the readings on the deflator came across the wires, we'll note that in each case the year-on-year percentage change matches what was seen in the March data, so in that sense the April data are more a case of not taking a step backwards than of taking a step forward. Still, after having been rather rudely surprised by the hotter than expected inflation prints seen for the first three months of this year, the April data come as somewhat of a relief to the markets. For us, our main interest in the April data was our proxy for discretionary services spending, as we were eager to see whether the marked softening in discretionary services spending seen over the first quarter of this year would persist. This looks to have been the case. As our regular readers know, we'd been surprised by the strength of discretionary services spending and had for some time been on the lookout for signs of cracks. With those cracks apparently forming, it is reasonable to think growth in consumer spending is shifting into a lower gear.

Private sector wage and salary earnings rose by 0.2 percent in April, matching our forecast despite us having noted considerable uncertainty over that call. While the reported increases in private sector payrolls and hourly earnings for April acted as drags, a much bigger drag on growth in private sector earnings was the shorter average workweek. At the same time, the smallest monthly increase in public sector payrolls since December 2022 acted as a drag on growth in public sector earnings. We've noted our skepticism over the results of the April employment report and see the underlying trend in the growth of labor earnings as being much stronger than implied by the April data. Moreover, even with the April data, growth in labor earnings continues to easily outpace inflation. It is, however, interesting to note that growth in services sector earnings has slowed to a greater extent than has growth in goods sector earnings, calling into question the premise that it is the latter that is acting as the primary force behind services sector inflation. Asset-based income grew by 0.5 percent in April while, as we anticipated, growth in rental income slowed sharply after a series of oddly large monthly increases.

Spending on goods fell by 0.2 percent in April, matching our forecast, with spending on consumer durable goods down by 0.3 percent and spending on nondurable goods down by 0.1 percent. The report on April retail sales tipped off the weakness in the BEA's measure of goods spending. Spending on household furnishings and appliances has been notably weak, which in part reflects curtailed home sales but which in part also reflects lower prices for consumer durable goods. Where our forecast of total consumer spending went off the rails is services spending, which came in weaker than we had anticipated. Our proxy for discretionary service spending was flat on a nominal basis and down by 0.2 percent on a real (inflation adjusted) basis, the third decline in real outlays in the past four months. At the same time, spending on housing and utilities was up by 0.5 percent in April, matching the increase seen in spending on health care. We had for some time been looking for spending on discretionary services to slow, but what is not yet clear is whether the slowing now being seen reflects pent-up demand having largely been sated or whether it reflects growing financial stresses taking a toll on such spending. Either way, slowing growth in discretionary services spending will act as a meaningful drag on growth in overall consumer spending.

Just as we did not make much out of the hotter than expected inflation prints earlier this year, we won't make too much out of the April data. We've long expressed doubts over inflation falling all the way to 2.0 percent, and continue to see inflation pressures, such as rising costs of non-labor inputs, in the pipeline. Not getting further away from the target isn't the same as getting closer to the target.





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