ECONOMIC UPDATE

REGIONS

May 31, 2019

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April Personal Income/Spending: U.S. Consumers Still Doing Their Part . . .

- Personal income <u>rose</u> by 0.5 percent in April, personal spending <u>rose</u> by 0.3 percent, and the saving rate <u>rose</u> to 6.2 percent
- The PCE deflator <u>rose</u> by 0.3 percent and the core PCE deflator was <u>up</u> by 0.2 percent in April; year-on-year, the PCE deflator was <u>up</u> by 1.5 percent and the core deflator was <u>up</u> by 1.6 percent

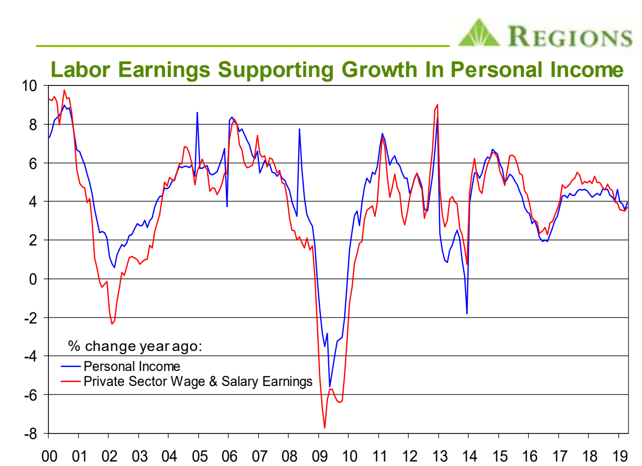
Total personal income rose by 0.5 percent in October, better than we and the consensus expected, while total personal spending rose by 0.3 percent, in line with the consensus but better than we expected. With income growth outpacing spending growth, the personal saving rate rose to 6.2 percent in April. The PCE deflator, the FOMC's preferred gauge of inflation, rose by 0.3 percent in April, with the core PCE deflator up by 0.2 percent. The PCE deflator is up 1.5 percent and the core PCE deflator up 1.6 percent year-on-year.

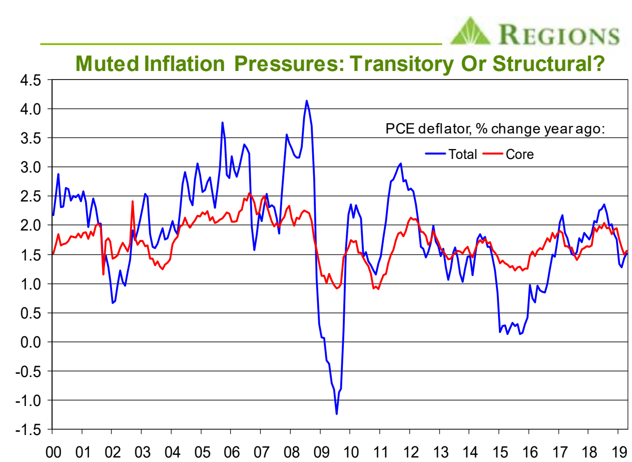
Total wage and salary earnings rose by 0.3 percent in April, with private sector and public sector earnings posting like-sized increases. On an over-the-year basis, private sector wage and salary earnings are up 3.70 percent while public sector earnings are up 3.20 percent. Note that wage and salary earnings are sensitive to changes in aggregate hours worked, and the one-tenth of an hour decline in the average length of the private sector workweek in April is reflected by the below-trend increase in private sector earnings.

While growth in wage and salary earnings matched our forecast, income from assets was much stronger than our forecast anticipated, with a 1.6 percent increase in April. Dividend income, which has been somewhat erratic over recent months, was up 0.7 percent in April after having fallen by 0.3 percent in March. Interest income reversed a string of sizable monthly declines, rising by 2.3 percent in April, though watching the behavior of market interest rates over the past few weeks suggests April's advance in interest income won't be repeated any time soon. Rental income posted a meager 0.2 percent increase in April, after a run of three straight months with better than 1.0 percent increases. We'd caution against reading too much into the April print, however, as this marks the third consecutive year in which rental income has been weak in the month of April, suggesting a degree of residual seasonality in the data. What is more concerning, however, is the weakness seen in nonfarm proprietors' income – a proxy for small business profits – over the past five months. The level of nonfarm proprietors' income was flat in April but after having hit a post-recession high in November 2018, this series has drifted lower, which could be a sign that a faster pace of growth of input costs, particularly labor, coupled with limited pricing power is pressuring small business profits.

Spending on nondurable consumer goods rose by 0.7 percent in April, stronger than our forecast anticipated and considerably stronger than implied by the April retail sales data. One difference is that the double-digit increase in retail gasoline prices is far more apparent in the PCE data than it was in the retail sales data, but these price effects wash from the data on real spending. Spending on consumer durable goods fell by 0.8 percent in April, in part reflecting a steep decline in motor vehicle sales. The 0.3 percent increase in spending on household services matched our forecast, with lower utilities outlays acting as a drag on growth. While real consumer spending was flat in April, keep in mind that this follows a spike in March, leaving the level of real spending in March well above the Q1 average, thus putting a firmer base under Q2 spending growth. As such, even with no change in April, Q2 growth in real consumer spending is on track to be much stronger than the 1.3 percent growth seen in Q1.

While higher gasoline prices helped push the total PCE deflator higher in April, it should be noted that the unrounded increase in the core PCE deflator of 0.247 percent is the largest such increase since October 2017. To be sure, this follows a three-month run in which the average monthly increase was 0.039 percent, so it is far too soon to draw any conclusions from the larger April increase. We will note that core goods prices fell by 0.2 percent in April, leaving them down 1.28 percent year-on-year, the 78th consecutive month in which core goods prices were down year-on-year and the largest such decline in that time period. As tariffs threaten to become more punitive and more broad based over coming months, core goods prices will bear watching, but keep in mind that currency movements, such as a stronger U.S. dollar, can blunt the impact of tariffs. Even so, core goods prices should transition from a drag on to a support for core inflation. This is one factor supporting the FOMC's view that inflation will turn higher over coming months.





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