ECONOMIC UPDATE

REGIONS

May 27, 2022

April Personal Income/Spending: Labor Earnings Underpin Income, Spending Growth

- Personal income rose by 0.4 percent in April, personal spending rose by 0.9 percent, and the saving rate fell to 4.4 percent
- The PCE Deflator rose by 0.2 percent and the core PCE Deflator rose by 0.3 percent in April; on an over-the-year basis, the PCE Deflator is up 6.3 percent and the core PCE Deflator is up 4.9 percent

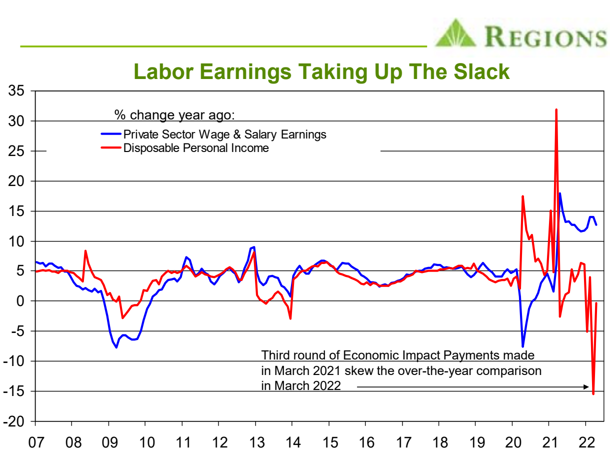
Total personal income rose by 0.4 percent in April, a touch below the 0.5 percent increase we anticipated, and total personal spending rose by 0.9 percent, shy of our forecast of a 1.2 percent increase, though the initial estimate of spending growth in March was revised higher. With spending growth once again outpacing income growth, the personal saving rate fell further in April and, at 4.4 percent, is at its lowest point since September 2008, which some will no doubt take as an ominous sign. The PCE Deflator, the FOMC's preferred gauge of inflation, rose by 0.3 percent while the Core PCE Deflator rose by 0.2 percent, each matching what we and the consensus expected. On an over-the-year basis, the PCE Deflator is up 6.3 percent as of April while the Core PCE Deflator is up 4.9 percent. Whether measured by the Consumer Price Index or the PCE Deflator, we've noted we thought March likely marked the peak rate of inflation during this cycle, but have also noted that should be of little consolation given that inflation is likely to remain somewhat sticky and it will be a considerable time before PCE inflation is back at the FOMC's 2.0 percent target rate.

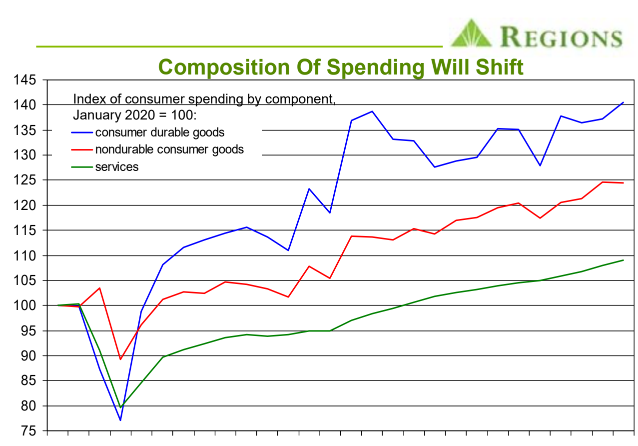
Aggregate wage and salary earnings rose by 0.6 percent in April, and are up 12.7 percent year-on-year, the 13th consecutive month with a double-digit year-on-year increase. While the monthly increases over the past few months are smaller than those seen in prior months, we've long expected earnings growth to settle into a range above that which prevailed in the years prior to the pandemic. As we often note, while most focus on average hourly earnings as a guide to patterns in personal income and spending, it is aggregate wage and salary earnings – the product of the number of people working and the number of hours they work – that are the driving force, as this is by far the largest component of personal income. With pandemic-related transfer payments having run their course, healthy growth in labor earnings is putting a floor under income growth and acting as a support for spending.

Solid increases in rental income, dividend income, and interest income were further supports for top-line income growth in April. At the same time, nonfarm proprietors' income fell by 0.4 percent in April, the third decline in the past five months. As we discussed in this week's *Economic Preview*, we think this series merits closer attention than it typically is given, as it is a proxy for small business profits. Small business profits have come under increasing pressure over recent months thanks to rapidly rising costs coupled with small businesses typically not having the same latitude to pass along higher costs as do larger corporations. To the extent small businesses have less pricing power, it could be that sustained cost pressures will weigh on plans for hiring and spending that would facilitate expansion.

Spending on consumer durable goods rose by 2.4 percent in April, with much of this increase courtesy of a jump in unit sales of new motor vehicles. Lower gasoline prices were a material drag on spending on nondurable consumer goods, which was down slightly in April. At the same time, spending on services rose by 0.9 percent in April, continuing a string of sizable increases. With a more moderate increase in prices in April, particularly prices for core consumer goods, the increase in nominal spending yielded a solid increase in real consumer spending, which was up 0.7 percent. With the upward revision to spending in March, the level of spending ended Q1 above the quarterly average, and with the solid increase in April that puts Q2 growth in real consumer spending on course to top Q1 growth, which will contribute to real GDP snapping back from the contraction in Q1. We continue to expect the composition of consumer spending to shift in the months ahead, with more spending going toward services and less going toward goods. To some extent, however, higher prices mean any such shift will be more visible in quantities rather than dollar volumes, and within the broad goods category, the shift from discretionary goods toward necessity goods will continue until there is relief on the price front.

Any such relief, however, will likely be slow in coming, even if we are correct in thinking March marked the peak rate of inflation. We expect inflation to be somewhat sticky, particularly with food and energy prices unlikely to waver. This will keep the FOMC on a path to a more neutral Fed funds rate over the remainder of 2022, if not beyond.





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