

Economic Indicator — April 28, 2023

Ongoing Pivot to Income as Main Driver of Spending

Summary

Consumer spending may not be quite as strong as it appears, but an underappreciated dynamic propping up the consumer is the tailwind from slowing inflation amid still elevated wage gains. The PCE deflator did not cool enough to stay the Fed's hand from another rate hike in May.

Economist(s)

Tim Quinlan

Senior Economist | Wells Fargo Economics
Tim.Quinlan@wellsfargo.com | 704-410-3283

Shannon Seery

Economist | Wells Fargo Economics
Shannon.Seery@wellsfargo.com | 332-204-0693

U.S. Personal Income & Spending: March 2023

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Personal Income (MoM)	0.2	0.5	0.5	0.8	0.6	0.5	0.9	0.4	0.3	0.6	0.3	0.3
Personal Income (YoY)	1.4	3.9	4.3	3.9	4.2	5.6	5.7	5.7	5.7	6.5	6.2	6.0
Personal Income, Ex. Transfers (MoM)	0.2	0.6	0.5	1.0	0.7	0.6	0.6	0.4	0.3	0.6	0.3	0.4
Wages & Salaries Income (MoM)	0.2	0.4	0.4	1.5	0.8	0.8	0.5	0.4	0.3	0.9	0.3	0.3
Personal Spending (MoM)	0.4	0.7	1.2	-0.1	0.7	0.6	0.7	-0.2	0.0	2.0	0.1	0.0
Personal Spending (YoY)	8.9	9.3	9.3	8.7	8.7	8.5	7.9	7.1	7.3	8.1	7.4	6.2
Personal Spending (% Change from Jan-20)	16.2	17.0	18.4	18.3	19.2	19.9	20.7	20.4	20.4	22.8	22.9	22.9
Durable Goods Spending (MoM)	1.2	-1.3	1.1	0.0	0.4	0.1	1.8	-3.2	-1.5	7.3	-1.5	-0.9
Nondurable Goods Spending (MoM)	-0.7	1.3	2.3	-1.2	-0.4	0.3	0.8	-0.5	-1.1	1.3	0.6	-0.4
Services Spending (MoM)	0.6	0.8	0.9	0.3	1.2	0.8	0.5	0.4	0.6	1.2	0.2	0.4
Real Disposable Personal Income (MoM)	-0.1	-0.1	-0.4	0.8	0.3	0.1	0.7	0.4	0.2	1.5	0.2	0.3
Real Disposable Personal Income (YoY)	-7.4	-4.8	-4.7	-4.6	-4.1	-2.6	-2.0	-1.4	-0.8	3.0	3.2	4.0
Real Personal Spending (MoM)	0.2	0.1	0.2	0.0	0.5	0.3	0.3	-0.4	-0.2	1.4	-0.2	0.0
Real Personal Spending (YoY)	2.4	2.6	2.1	2.2	2.3	2.1	1.7	1.4	1.9	2.6	2.2	1.9
PCE Deflator (YoY)	6.4	6.5	7.0	6.4	6.3	6.3	6.1	5.7	5.3	5.4	5.1	4.2
Core PCE Deflator (YoY)	5.0	4.9	5.0	4.7	4.9	5.2	5.1	4.8	4.6	4.7	4.7	4.6
Personal Saving Rate (%)	3.6	3.4	2.7	3.5	3.2	3.0	3.4	4.1	4.4	4.5	4.8	5.1
"Excess" Personal Savings (Trillions \$)	1.65	1.56	1.46	1.38	1.29	1.19	1.10	1.02	0.95	0.87	0.80	0.74

Notes: MoM = Month-over-Month Percent Change
YoY = Year-over-Year Percent Change

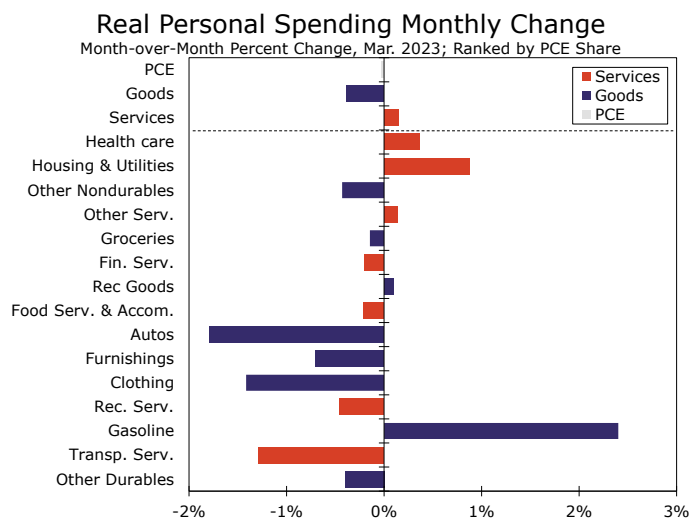
Source: U.S Department of Commerce and Wells Fargo Economics

Can't Stop Me Now?

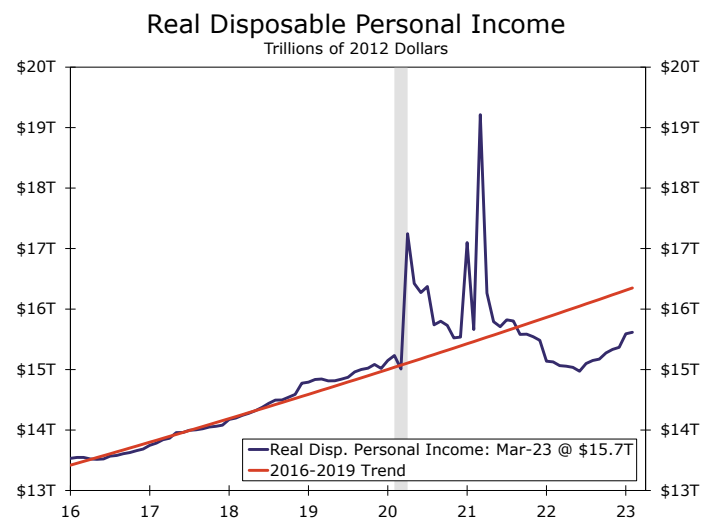
Personal spending notched another modest gain in March increasing by \$8.2 billion in the month. On the face of it, it looks like the consumer cannot be stopped. Not by a pandemic, not by the highest inflation in 40 years nor the rate increases meant to tame that inflation, not even by market gyrations amid the first major bank failures since the financial crisis. This was also a theme that emerged from yesterday's Q1 GDP print, essentially that growth is being sustained by an ever-resilient consumer.

The staying power of the consumer was certainly a dynamic fully in play last year, but we think that is the wrong take-away from the GDP report as well as today's details on March spending in particular. Here's why: aside from a pop in January (which was admittedly the biggest surge in almost two years), it's been a downhill ride since November for consumer spending; especially after adjusting for inflation. Real consumer personal outlays actually fell, albeit very mildly in March. Still, factoring in today's print, real consumer spending has now contracted in four of the past five months.

So the 3.7% annualized growth rate for Q1 PCE is entirely due to January's surge. The spending details reveal that almost half of that month's increase was attributable to motor vehicle sales alone, perhaps reflecting some healing in supply chains. The composition of spending for March in particular is also reflective of a theme that informs our own forecast and that is the transition to services ([chart](#)). Outside of a price-related rise in gasoline sales, the top categories for spending last month were housing and utilities followed by healthcare spending. That is hardly the spending profile of a heedless consumer on a spending spree.



Source: U.S. Department of Commerce and Wells Fargo Economics



Source: U.S. Department of Commerce and Wells Fargo Economics

Running from my Kryptonite and I'll Keep Rising up

An underappreciated dynamic propping up the consumer is the tailwind that has come from slowing inflation amid still elevated wage gains. Real disposable personal income rose for the ninth straight month in March ([chart](#)), up 0.3%, and we learned yesterday this measure of income was up at an 8% annualized pace in the first quarter. This increase in purchasing power has allowed households to continue to spend even as excess savings has slowed and credit grows more expensive or challenging to come by.

As overall nominal income (+0.3%) outpaced spending (0.0%), the personal saving rate rose to 5.1% in March, which marks the highest rate in which consumers have saved at in a little over a year. The improvement in the saving rate in recent months is a positive development, though it somewhat reflects tax accounting. Households are still saving a lower share of income than they did pre-pandemic. There's some gas left in the tank to rely on excess savings, but that's becoming less and less of a driver of spending and households may grow less inclined to tap the rainy day fund as uncertainty grows.

The labor market remains exceptionally tight, though there are signs slack is beginning to materialize with job openings rolling over and layoff announcements surfacing. The outcome depends on the

income. Job security and prospects matter much more for today's consumer than rising interest rates and persistent inflation. If we see further deterioration in labor, spending will likely come under pressure as the year progresses.

Inflation continues to slow. The core PCE deflator rose 0.3% in March, driving the annual change to 4.6%, the lowest in a year and a half. While the Fed will be pleased to see the pace of price growth is coming off the boil, inflation remains far too hot for the Fed's liking. Separately released data this morning on the Employment Cost Index also showed only modest improvement coming from labor cost pressure. We expect the FOMC will elect to hike the target range on the federal funds rate by an additional 25 bps at next week's meeting, lifting the range to 5.00%-5.25%. This is currently the last rate hike we forecast for the Fed this cycle, though rate changes remain highly uncertain and will depend on how inflation and labor market data progress from here.

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Jessica Guo	Economic Analyst	212-214-1063	Jessica.Guo@wellsfargo.com
Karl Vesely	Economic Analyst	704-410-2911	Karl.Vesely@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures

This report is produced by the Economics Group of Wells Fargo Bank, N.A. ("WFBNA"). This report is not a product of Wells Fargo Global Research and the information contained in this report is not financial research. This report should not be copied, distributed, published or reproduced, in whole or in part. WFBNA distributes this report directly and through affiliates including, but not limited to, Wells Fargo Securities, LLC, Wells Fargo & Company, Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Europe S.A., and Wells Fargo Securities Canada, Ltd. Wells Fargo Securities, LLC is registered with the Commodity Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. WFBNA is registered with the Commodity Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this report.

This publication has been prepared for informational purposes only and is not intended as a recommendation offer or solicitation with respect to the purchase or sale of any security or other financial product nor does it constitute professional advice. The information in this report has been obtained or derived from sources believed by WFBNA to be reliable, but has not been independently verified by WFBNA, may not be current, and WFBNA has no obligation to provide any updates or changes. All price references and market forecasts are as of the date of the report. The views and opinions expressed in this report are not necessarily those of WFBNA and may differ from the views and opinions of other departments or divisions of WFBNA and its affiliates. WFBNA is not providing any financial, economic, legal, accounting, or tax advice or recommendations in this report, neither WFBNA nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this report and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. WFBNA is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company. © 2023 Wells Fargo Bank, N.A.

Important Information for Non-U.S. Recipients

For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority ("FCA"). For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. For recipients in the EFTA, this report is distributed by WFSIL. For recipients in the EU, it is distributed by Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE