

Economic Indicator — May 27, 2022

# Consumer Staying Power on Full Display in April

## Summary

So far in 2022, inflation has outpaced income, yet real consumer spending has increased every month this year including another 0.7% in April as we learned in today's personal income and spending report. The source of funds for these outlays are not infinite. For real spending to be sustained, we'll need to see income outpace inflation. That happened in April for the first time since October 2021.

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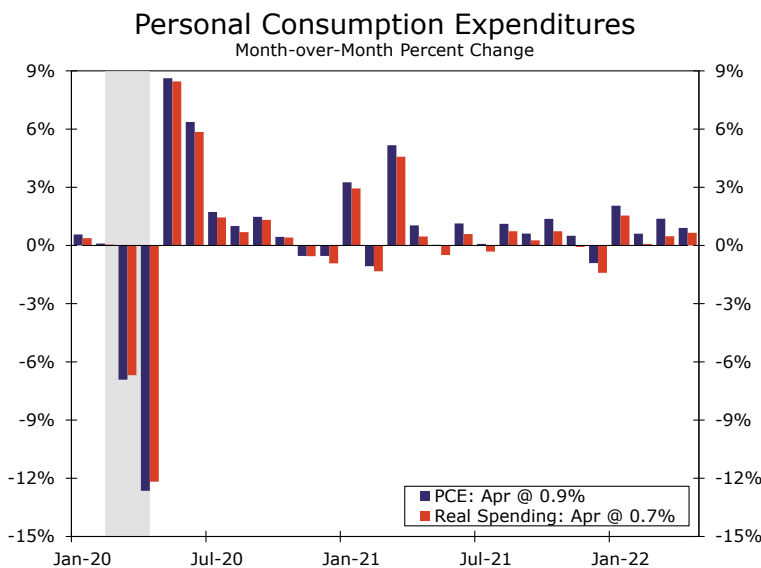
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U.S. Personal Income & Spending: April 2022												
	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
<b>Personal Income (MoM)</b>	-2.0	0.3	1.3	0.4	-0.9	0.8	0.7	0.5	0.1	0.6	0.5	0.4
<b>Personal Income (YoY)</b>	1.9	3.1	3.5	7.1	5.3	6.4	8.2	8.0	-1.7	6.6	-11.4	2.6
<b>Personal Income, Ex. Transfers (MoM)</b>	0.8	0.8	0.9	0.3	0.6	1.1	0.7	0.5	0.4	0.8	0.6	0.5
<b>Wages &amp; Salaries Income (MoM)</b>	1.1	1.1	1.2	0.5	0.9	1.5	1.0	0.8	0.5	1.1	0.7	0.6
<b>Personal Spending (MoM)</b>	0.0	1.1	0.1	1.1	0.6	1.4	0.5	-0.9	2.1	0.6	1.4	0.9
<b>Personal Spending (YoY)</b>	19.7	13.8	11.9	12.1	11.1	12.1	13.3	12.9	11.6	13.5	9.4	9.2
<b>Personal Spending (% Change from Jan-20)</b>	5.8	7.0	7.1	8.3	8.9	10.4	11.0	10.0	12.2	12.9	14.5	15.5
<b>Durable Goods Spending (MoM)</b>	-3.9	-0.3	-3.9	0.9	0.6	4.5	-0.1	-5.4	7.7	-1.0	0.5	2.4
<b>Nondurable Goods Spending (MoM)</b>	-0.5	2.0	-0.9	2.3	0.6	1.6	0.8	-2.5	2.6	0.7	2.7	-0.1
<b>Services Spending (MoM)</b>	1.1	1.1	1.2	0.8	0.6	0.7	0.5	0.5	0.8	0.9	1.1	0.9
<b>Real Disposable Personal Income (MoM)</b>	-3.0	-0.4	0.8	-0.1	-1.6	0.0	0.0	-0.2	-1.4	0.0	-0.5	0.0
<b>Real Disposable Personal Income (YoY)</b>	-4.1	-2.8	-2.6	1.1	-1.1	-0.6	0.7	0.3	-10.4	-2.1	-20.8	-6.2
<b>Real PCE (MoM)</b>	-0.5	0.6	-0.3	0.7	0.3	0.7	-0.1	-1.4	1.5	0.1	0.5	0.7
<b>Real PCE (YoY)</b>	15.1	9.3	7.5	7.5	6.4	6.7	7.2	6.7	5.3	6.8	2.6	2.8
<b>PCE Deflator (YoY)</b>	4.0	4.0	4.2	4.2	4.4	5.1	5.6	5.8	6.0	6.3	6.6	6.3
<b>Core PCE Deflator (YoY)</b>	3.5	3.6	3.6	3.6	3.7	4.2	4.7	4.9	5.1	5.3	5.2	4.9
<b>Personal Saving Rate</b>	10.4	9.5	10.5	9.8	8.1	7.5	7.6	8.7	6.0	5.9	5.0	4.4
<b>"Excess" Personal Savings (Trillions \$)</b>	2.3	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.2

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

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



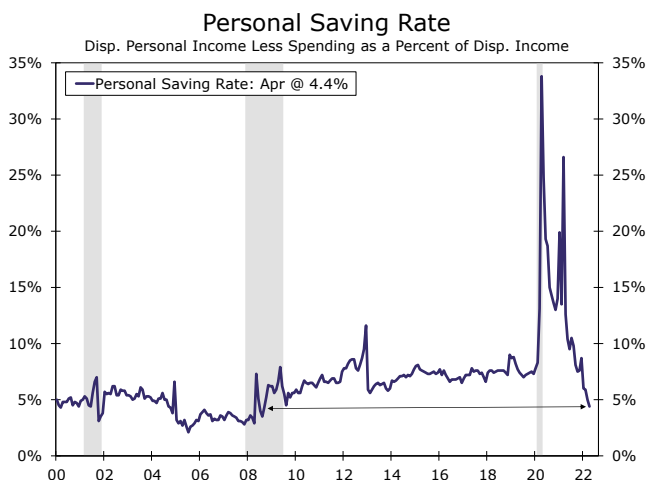
Source: U.S. Department of Commerce and Wells Fargo Economics

## Consumers Getting Close to the End of the Lollipop?

On the day after revised GDP numbers showed an even faster pace of consumer spending in the first quarter, fresh data today for April showed that momentum continued into the second quarter. Personal spending shot up 0.9% in the month and, after adjusting for inflation, real spending still added 0.7%; that comes on the heels of revisions that more than doubled March's real spending gain from 0.2% to 0.5%.

Spending was relatively broad-based with real services outlays growing another 0.5% and real goods spending up 1.0%. Goods spending got a lift from motor vehicles, the category with the largest increase on a real basis. Other durables categories, where frankly we have been expecting some weakness like recreational goods and vehicles and durable household equipment, also saw increased spending in April. Perhaps to some extent we are seeing the delayed arrival of stoves, dishwashers and other household durable goods items that have been in short supply these past few years.

We have a tendency to discount survey data at least when it comes to the consumer. Sentiment has turned sharply lower in recent months with most consumers blaming inflation for their misery. It is hard to square that with recreational services posting the largest gain of any service category in real terms (+1.5%). Bars and restaurants also posted a solid 1.3% gain while grocery store spending was one of only two categories to post a decline in real spending during in April. The other was gas stations, which signals that consumers may be at least trying to combine trips to make fewer trips to the pump.

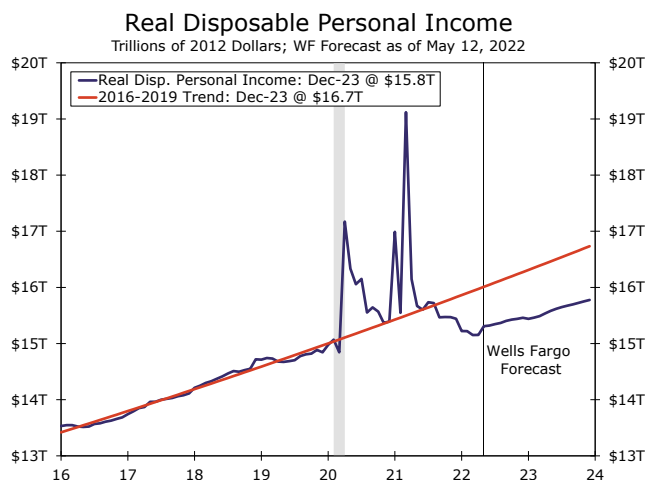


Source: U.S. Department of Commerce and Wells Fargo Economics

The bottom line is consumer spending is not slowing as most expected, and that's because of the three levers we identified in a [special report](#) this week, but they're running out of capacity to keep tapping them. The personal saving rate slid to 4.4%, which comfortably marks the lowest rate at which consumers saved at in 14 years (see [chart](#)). Downward revisions to recent savings data also suggest excess savings have been falling at a faster rate than previously expected or demonstrate consumers' increased reliance on credit to fund purchases. Regardless, today's report makes clear that consumers continue to consume despite facing the highest inflation in forty years. But, we're getting closer to the end of the lollipop.

Consumers can't rely on these sources of purchasing power forever, and one potential bright spot is income dynamics. Personal income rose 0.4% in April, with another solid gain in wages & salaries which are now over 1.5% above their pre-pandemic level. Once removing transfers and adjusting for inflation, real disposable personal income rose 0.02%. With this marking the first time in five months that income outpaced inflation, as expected the level of real disposable income looks to have bottomed in March. A continued upward ascent in real income would be one factor that can help provide a more sustainable source to purchasing power, but as our forecast in the nearby [chart](#) demonstrates, it will likely be some time until levels get back to where they would be implied by their 2016-19 trend.

We forecast consumer spending will downshift over the next several quarters, particularly as rate hikes begin to ratchet up the cost of credit. Even though we expect consumer spending to remain below trend throughout the forecast period, we do not look for sustained declines in outlays.



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

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