

Economic Indicator — June 30, 2022

Consumer Staying Power Running Out

Summary

Yesterday's GDP revisions that lowered estimates for first quarter consumer spending was just a jab; today's May personal income and spending report was the uppercut. Real consumer spending dropped 0.4% in May and prior monthly spending figures were revised lower. At least inflation did not get *materially* worse; the headline PCE deflator rose less than expected to 6.35%.

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

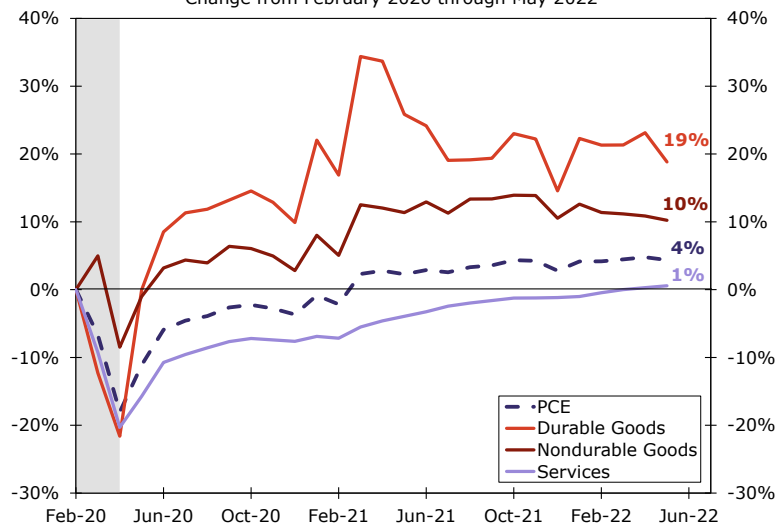
U.S. Personal Income & Spending: May 2022												
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Personal Income (MoM)	0.3	1.3	0.4	-0.9	0.8	0.7	0.5	0.0	0.6	0.6	0.5	0.5
Personal Income (YoY)	3.1	3.5	7.1	5.3	6.4	8.2	8.0	-1.8	6.5	-11.4	2.7	5.3
Personal Income, Ex. Transfers (MoM)	0.8	0.9	0.3	0.6	1.1	0.7	0.5	0.3	0.8	0.6	0.5	0.7
Wages & Salaries Income (MoM)	1.1	1.2	0.5	0.9	1.5	1.0	0.8	0.5	1.1	0.7	0.6	0.5
Personal Spending (MoM)	1.1	0.1	1.1	0.6	1.4	0.5	-0.9	1.9	0.6	1.2	0.6	0.2
Personal Spending (YoY)	13.8	11.9	12.1	11.1	12.1	13.3	12.9	11.3	13.2	8.9	8.4	8.5
Personal Spending (% Change from Jan-20)	7.0	7.1	8.3	8.9	10.4	11.0	10.0	12.0	12.6	14.0	14.6	14.8
Durable Goods Spending (MoM)	-0.3	-3.9	0.9	0.6	4.5	-0.1	-5.4	7.7	-1.0	-0.2	1.6	-3.2
Nondurable Goods Spending (MoM)	2.0	-0.9	2.3	0.6	1.6	0.8	-2.5	2.6	0.7	2.6	-0.6	0.7
Services Spending (MoM)	1.1	1.2	0.8	0.6	0.7	0.5	0.5	0.5	0.8	0.9	0.7	0.7
Real Disposable Personal Income (MoM)	-0.4	0.8	-0.1	-1.6	0.0	0.0	-0.2	-1.8	0.1	-0.4	0.2	-0.1
Real Disposable Personal Income (YoY)	-2.8	-2.6	1.1	-1.1	-0.6	0.7	0.3	-10.7	-2.4	-20.9	-6.1	-3.3
Real PCE (MoM)	0.6	-0.3	0.7	0.3	0.7	-0.1	-1.4	1.3	0.0	0.3	0.3	-0.4
Real PCE (YoY)	9.3	7.5	7.5	6.4	6.7	7.2	6.7	5.0	6.5	2.1	1.9	2.1
PCE Deflator (YoY)	4.0	4.2	4.2	4.4	5.1	5.6	5.8	6.0	6.3	6.6	6.3	6.3
Core PCE Deflator (YoY)	3.6	3.6	3.6	3.7	4.2	4.7	4.9	5.1	5.3	5.2	4.9	4.7
Personal Saving Rate	9.5	10.5	9.8	8.1	7.5	7.6	8.7	5.8	5.8	5.3	5.2	5.4
"Excess" Personal Savings (Trillions \$)	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.3	2.3	2.3	2.2	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

Real Personal Consumption Expenditures

Change from February 2020 through May 2022



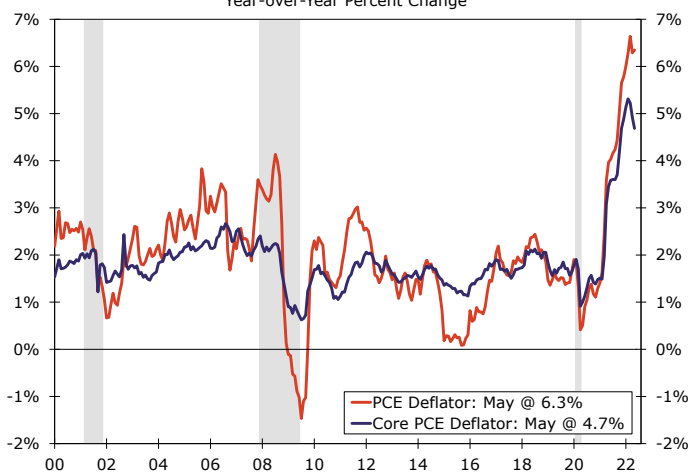
Source: U.S. Department of Commerce and Wells Fargo Economics

Turn on a Dime, or Should We Say a Quarter Now?

Real consumer spending fell 0.4% in May. Was it all a dream? Just a few days ago the latest published figures on personal spending revealed a consumer with uncanny staying power despite the highest gas prices ever and the fastest inflation in 40 years. Yesterday's GDP report revised lower the growth rate in consumer spending to 1.8% from 3.1% previously. Today's details on monthly spending figures shows a much weaker profile for spending in the first five months of the year and sets us up for weaker growth in the second quarter than the data would have suggested just 48 hours ago.

There is not much that is good about today's report, but something that is at least "less bad" is that the PCE deflator rose "just" 0.6% in May which only marginally lifted the year-over-year rate of inflation to 6.35% from 6.29% previously. The core PCE deflator was expected to slow in May, and it did, in fact it fell more than expected to a 4.7% year-ago rate in May from 4.9% in April ([chart](#)). Policymakers at the Federal Reserve and financial markets alike may be heartened at these signs the fever may be starting to breaking for inflation, but our latest forecast says that we are not out of the woods yet. Volatile food and energy prices still have scope to drive inflation higher and chip away at real consumer spending power.

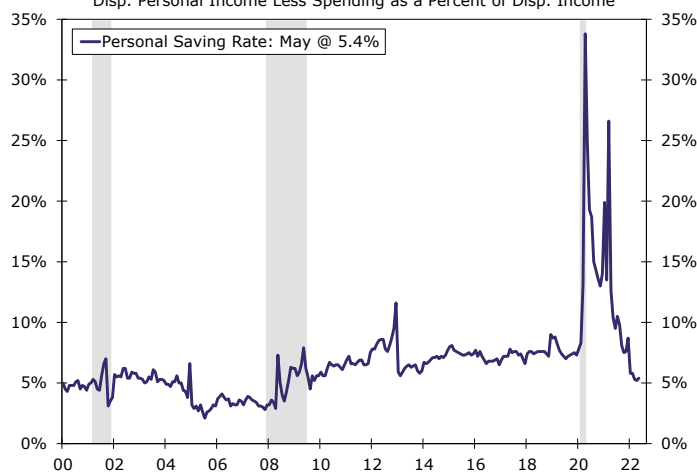
PCE Deflator vs. Core PCE Deflator
Year-over-Year Percent Change



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

Personal Saving Rate

Disp. Personal Income Less Spending as a Percent of Disp. Income



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

The personal income data piled onto the bad news of the report and the recent personal income data give a crash course in the importance of inflation-adjusted figures. Nominal personal income continues to march higher, up in 11 of the past 12 months, but after adjusting for the run-up in prices real income paints a strikingly different story for households. Real disposable personal income, which not only adjusts for price changes but also strips out taxes, slid another 0.1% in May and the level is now 5.4% below where it would be implied by its pre-pandemic trend.

With real income having moved decidedly lower, consumers are getting squeezed when it comes to their purchasing power. One way they're continuing to spend at a decent clip is that they're directing less income to savings. The personal saving rate inched higher to 5.4% in May from an upwardly revised 5.2% in April ([chart](#)). These 5-handle figures were last reached during the 2009 recession and are well below pre-pandemic saving habits which had saving rates somewhere between 7% and 8%.

The Struggle is Real

With the third estimate of first-quarter GDP, which revised real personal consumption expenditures (PCE) lower to reflect a 1.8% annualized pace of growth, and this sharp decline in May, estimates for second quarter PCE growth will likely be coming down. Even so, our overall expectations for consumer spending have not materially changed. We continue to expect consumers will increasingly rely on their balance sheets to fund spending in the near term despite persistently higher inflation.

Prior to this week's data, consumer spending was somehow defying gravity; but in the wake of yesterday's GDP revisions and today's dreary May spending figures, the hard data are finally showing what anyone in the checkout line at the grocery store could tell you: the struggle is real. We still think services spending will carry consumer spending through the summer, but once Labor Day comes, the boost from services may not be enough to keep overall consumer spending in the black.

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
Mark Vitner	Senior Economist	704-410-3277	Mark.Vitner@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	Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Shannon Seery	Economist	332-204-0693	Shannon.Seery@wellsfargo.com
Nicole Cervi	Economic Analyst	704-410-3059	Nicole.Cervi@wellsfargo.com
Sara Cotsakis	Economic Analyst	704-410-1437	Sara.Cotsakis@wellsfargo.com
Jessica Guo	Economic Analyst	704-410-4405	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
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., Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. 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. © 2022 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