Economics

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%.

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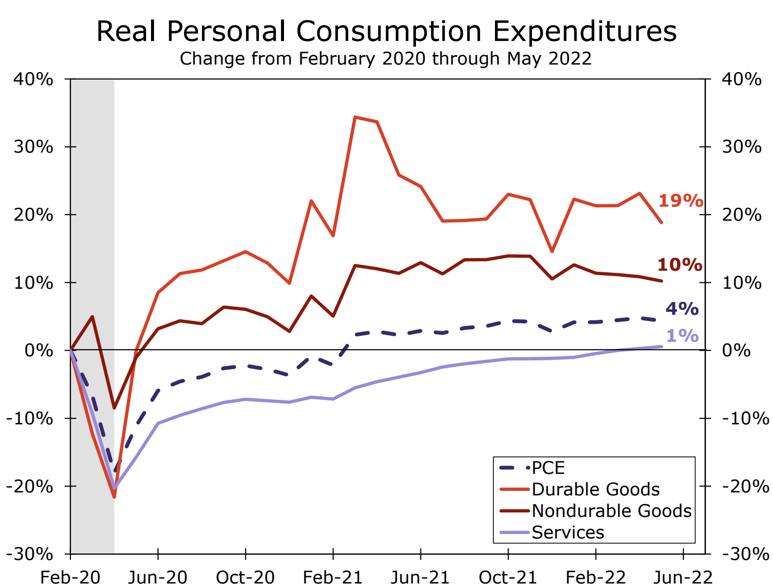
U.S. Personal Income & Spending: May 2022

	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

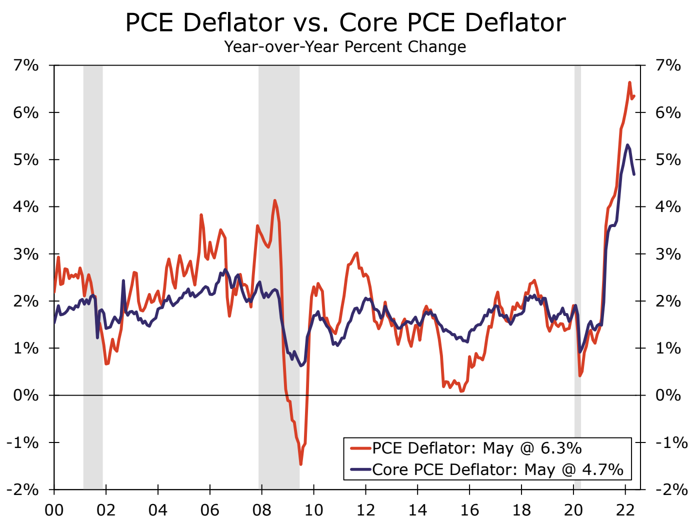


Source: U.S. Department of Commerce and Wells Fargo Economics

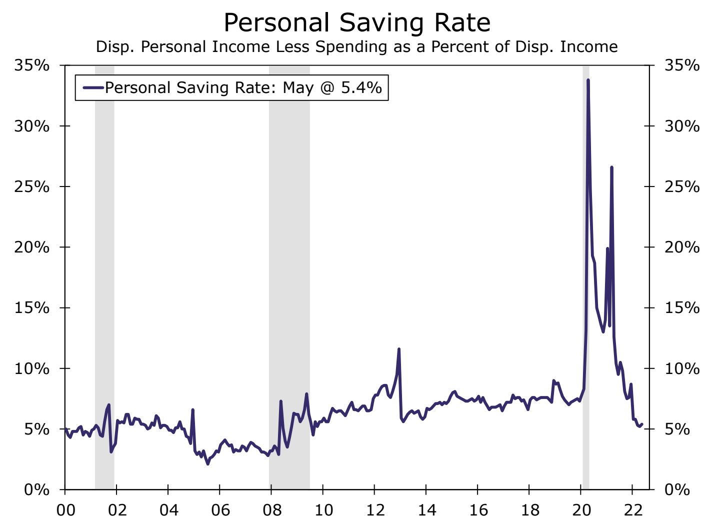
Turn on a Dime, or Should We Say a Quarter Now?

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.



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



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.

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