ECONOMIC UPDATE
REGIONS
July 29, 2022

June Personal Income/Spending: Spending Growth On Weaker Trajectory

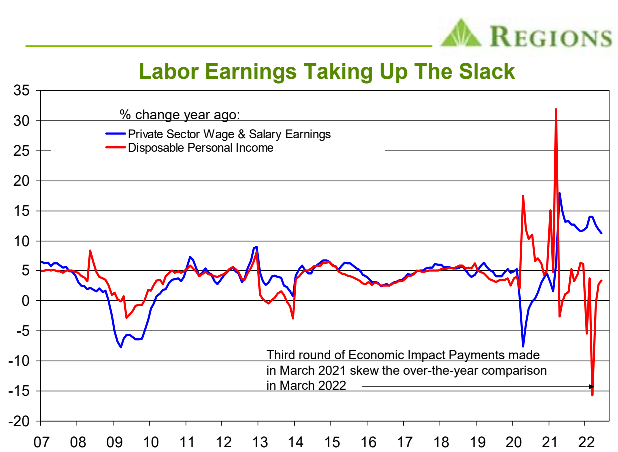
- Personal income rose by 0.6 percent in June, personal spending rose by 1.1 percent, and the saving rate fell to 5.1 percent
- The PCE Deflator rose by 1.0 percent and the core PCE Deflator rose by 0.6 percent in June; on an over-the-year basis, the PCE Deflator is up 6.8 percent and the Core PCE Deflator is up 4.8 percent

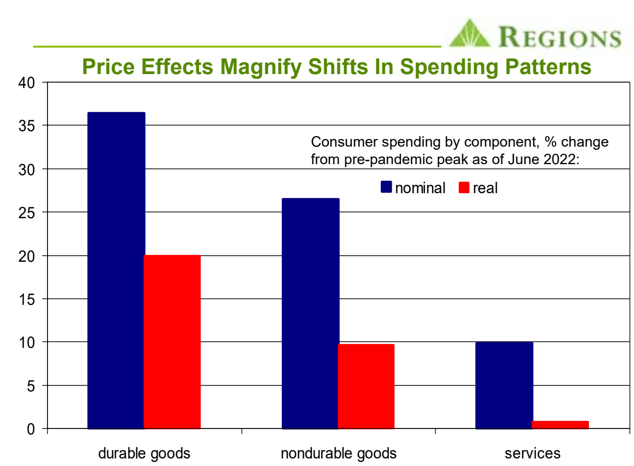
Total personal income rose by 0.6 percent in June, twice the increase we anticipated, while total personal spending rose by 1.1 percent, matching our above-consensus forecast. With income growth outpacing spending growth, the personal saving rate fell to 5.1 percent though, as we've often noted, the saving rate is a highly imperfect measure of the degree of liquidity in the household sector. While June's increase in spending may seem impressive, it is considerably less so after accounting for price changes, as real personal spending was up just 0.1 percent in June. While the June data were incorporated into the initial estimate of Q2 real GDP, the monthly patterns are still relevant, and it is worth noting that the level of real personal spending in June was lower than the Q2 average. This sets a wobbly base under Q3 growth in real consumer spending and, in turn, Q3 real GDP growth. The PCE Deflator, the FOMC's preferred gauge of inflation, rose by 1.0 percent in June while the core PCE Deflator was up by 0.6 percent, each matching our above-consensus forecast, yielding over-the-year increases of 6.8 percent and 4.8 percent, respectively, with headline PCE inflation running at its fastest pace since January 1982.

Aggregate private sector wage and salary earnings rose by 0.5 percent in June, leaving them up 11.2 percent year-on-year, the 15th consecutive month with a double-digit year-on-year increase. Aggregate wage and salary earnings account for the number of people working, the number of hours they work, and what they earn for each hour worked, and this is far and away the largest single component of personal income. This makes aggregate wage and salary earnings far more relevant than average hourly earnings as a guide to patterns in personal income and spending. Rental income was up 2.5 percent in June while prior estimates for April and May were revised significantly higher, to the point that rental income rose at an annualized rate of 23.5 percent in Q2. While faster growth in rental income was one factor in our miss on personal income growth in June, an even bigger factor was stronger growth in nonfarm proprietors' income than we expected. As we noted in this week's *Economic Preview*, before jumping in May (the revised data show a 0.9 percent increase) nonfarm proprietors' income had been somewhat listless over the prior several months. As such, we weren't sure whether May's increase would stick, which it did and then some with a 1.1 percent increase in June. This matters as nonfarm proprietors' income is a proxy for small business profits, and the hefty increases in May and June could indicate that small businesses have been more able to pass along higher costs for labor and other inputs along in the form of higher prices than had previously been the case.

Consumer spending on goods rose by 1.6 percent in June, but at the same time prices of consumer goods rose by 1.5 percent, leaving a paltry 0.09 percent increase in real spending on goods. Gasoline prices were up by 11.0 percent in June, which contributed to the increase in nominal spending on goods, and prices for food consumed at home logged a fifth straight monthly gain of 1.0 percent or more. The data on prices for core consumer goods aren't exactly encouraging, with core goods prices up 0.7 percent in June, though it is somewhat puzzling that prices of consumer durables such as furniture and appliances, areas in which consumer demand has fallen off, rose in June after having fallen in May. We still think the trend in prices for consumer durable goods over the next several months will be downward.

Spending on services, which accounts for roughly two-thirds of all consumer spending, rose by 0.8 percent in June, in line with the gains seen over the prior several months but, with services prices having risen by 0.7 percent, this leaves real spending on services up by just 0.1 percent. We have for some time (going all the way back to January 2021) been talking about a rotation in patterns of consumer spending, away from goods and toward services, the questions being when this shift would start and how pronounced it would be. While this shift is well underway, a point which should be, but is often not, kept in mind when assessing reports on retailers' sales, inventories and earnings, the extent of it is being masked by higher goods prices. That said, we expect services spending to cool meaningfully once summer ends, which will be reflected in slower growth in total consumer spending.





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