Daiwa Capital Markets

U.S. Data Review

- PCE inflation: intense in the food and energy components; an easing in core
- Consumer spending: restrained

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Personal, Income, Consumption, Prices

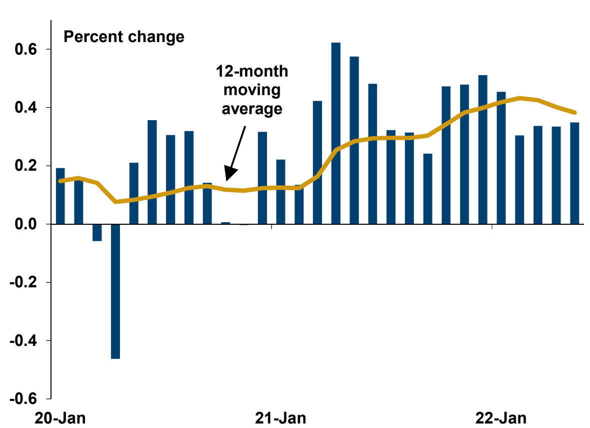
Prices of food and energy continued to misbehave in May, increasing 1.2 percent and 4.1 percent, respectively. The latest changes left year-over-year increases of 11.0 and 35.8 percent in these areas. The core component, in contrast, showed considerably less pressure, increasing 0.3 percent for the fourth consecutive month (chart, left). Recent changes are still not consistent with the Fed's target of 2.0 percent, but the latest shifts represent notable improvement from the average of 0.5 percent in the prior four months prior to February and readings as high as 0.6 percent in the spring of last year.

The May restraint in the core component was influenced by lower prices of items that were in heavy demand during the worst of the pandemic (TVs, appliances, furniture, and sporting equipment all declined in price). The restraint was certainly welcome, but the detail of the report also showed some pressure points. Individuals apparently are traveling more, as goods or services sensitive to leisure activity rose noticeably (airfares, hotel fees, vehicle rental rates, and prices of luggage). Prices of new and used vehicles also jumped. Rental rates for nonfarm housing have emerged as a problem area this year, and they remained an issue in May with an increase of 0.6 percent, up from an average of 0.5 percent in the first four months of the year.

Nominal income posted a respectable advance, increasing 0.5 percent. Wages and salaries rose moderately (0.5 percent), and this gain was accompanied by strong results elsewhere. Pressure seen in the price index generated hefty income gains for some, with rental income jumping 1.9 percent and farm income rising 3.7 percent. Tighter monetary policy is apparently having an effect, as interest income rose 0.4 percent. Income gains, however, were eroded by inflation, as real personal income fell 0.1 percent.

The drop in real income restrained spending, as growth in nominal outlays of 0.2 percent translated to a decline of 0.4 percent in real terms. The pivot from goods to services was evident in the spending data, as expenditures on goods fell 1.6 percent after adjusting for inflation, while spending on services rose 0.3 percent. The latest monthly results suggest that real consumer spending in Q2 will be soft, with the data in hand suggesting growth of less than 1.0 percent (chart, right).

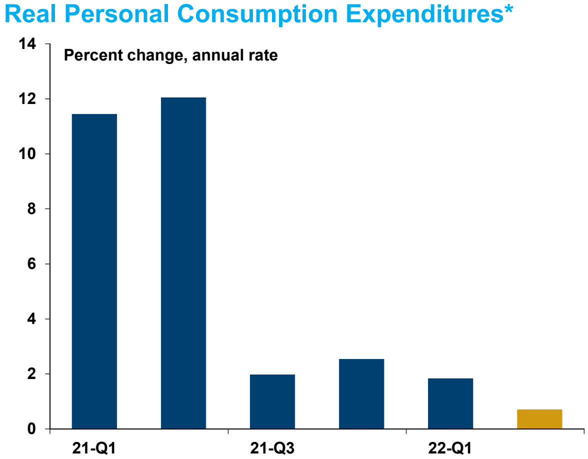
Core PCE Price Index*



** PCE = personal consumption expenditures*

Source: Bureau of Economic Analysis via Haver Analytics

Real Personal Consumption Expenditures*



** The reading for 2022-Q2 (gold bar) is a forecast based on monthly data for April and May.*

Sources: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America