U.S. Data Review

- Consumer inflation: rapid in food and energy; moderate in core
- Consumer spending: still advancing despite price challenges
- Employment cost index: surge in benefit expenses; brisk increase in wages

Michael Moran
Lawrence Werther
Daiwa Capital Markets America
michael.moran@us.daiwacm.com
lawrence.werther@us.daiwacm.com

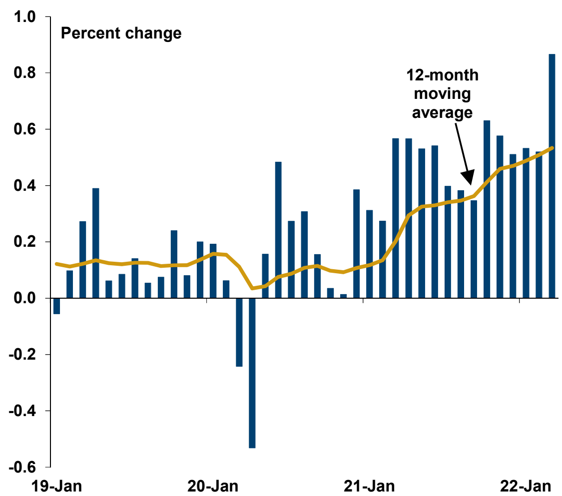
Consumer Inflation and Spending

Prices of food and energy continued to surge in March, jumping 1.4 percent and 11.8 percent, respectively. The changes left the year-over-year increases at 9.2 and 33.9 percent. The core component was less alarming, as it rose "only" 0.3 percent for the second consecutive month (and both months rounded up to 0.3 percent). Prices excluding food and energy rose 5.2 percent in the past 12 months, still brisk but lighter than the 5.3 percent advance in the prior month (charts).

Plenty of items outside of food and energy continued to show price pressure. Individuals seem to be traveling more, as airfares jumped 8.6 percent and car rental fees rose 11.7 percent in March (not annualized!). Hotel fees also jumped (3.7 percent), and admission prices to live entertainment (ex-sports) and movies both rose 1.1 percent. Strong demand also pushed prices higher for appliances, furniture, jewelry, and recreation items. Rents continued to move along a firm path (0.4 percent). As in February, there were offsets that restrained the average increase. Prices of used vehicles fell 3.6 percent for the second consecutive month, and admission fees to sporting events dropped 5.9 percent. Several other goods or services registered lower prices (televisions, photo equipment, prescription drugs, physician services, financial services).

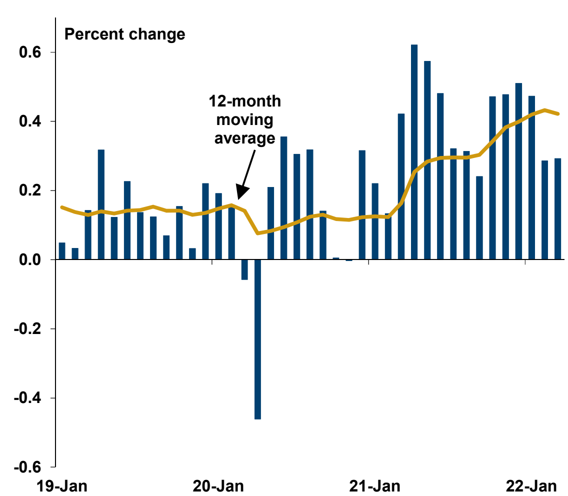
Elevated prices of food and energy might have constrained budgets, but consumers remained active in March, with nominal outlays increasing 1.1 percent, which translated to a gain of 0.2 percent in real terms. Individuals continued to pivot toward service spending, as real outlays in this category rose 0.6 percent versus a drop of 0.5 percent in real outlays for goods. Real service spending is still below pre-pandemic levels and noticeably shy of the pre-pandemic trend (chart, next page), but spending is moving upward. Real outlays for goods have been drifting lower in the past year, but they are still above the pre-pandemic trend.

Headline PCE Price Index*



** PCE = personal consumption expenditures*
Source: Bureau of Economic Analysis via Haver Analytics

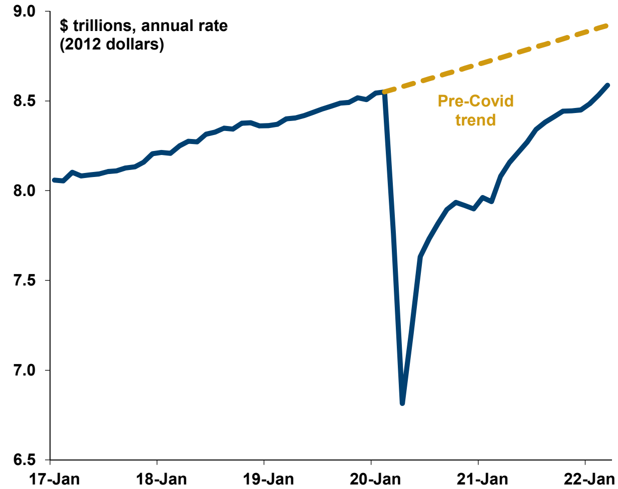
Core PCE Price Index*



** PCE = personal consumption expenditures*
Source: Bureau of Economic Analysis via Haver Analytics

Spending growth, to a degree, came at the expense of saving, as the saving rate eased 0.6 percentage point to 6.2 percent, light relative to the average of 7.4 percent in the five years before the pandemic. Income flows were only moderate in March as nominal personal income rose 0.5 percent, which translated to a decline of 0.4 percent after adjusting for inflation. Rental income and farm income were strong (0.7 percent and 13.0 percent, but wages and salaries and investment income were moderate (0.6 percent and 0.4 percent). Transfer payments (largely government support) were light (0.3 percent).

Real Consumer Spending: Services*



** The pre-Covid trend assumes 2.0 percent annual growth.*

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

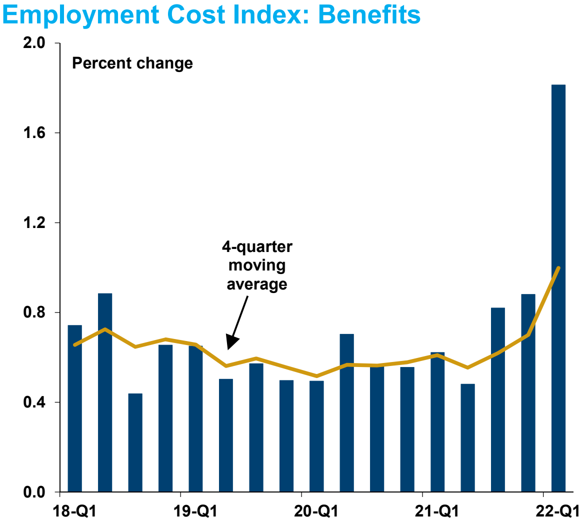
Employment Cost Index

The employment cost index rose 1.4 percent in Q1, exceeding the expected advance of 1.1 percent. The latest jump in compensation costs was the third consecutive quarterly advance of 1.0 percent or more, a notable shift from the average of 0.6 percent per quarter in the prior expansion. On a year-over-year basis, compensation costs increased 4.5 percent, the fastest advance in more than 20 years. The pronounced increases reflect both efforts to compete for scare labor resources and adjustments to maintain the real income of existing workers.

A surge in benefit costs stood out in Q1, with the quarterly advance of 1.8 percent pushing the year-over-year increase to 4.0 percent, the fastest year-over-year change since 2005 (chart, left). Increases in benefit costs had lagged those in wages in recent quarters, but a jump in Q1 closed the gap.

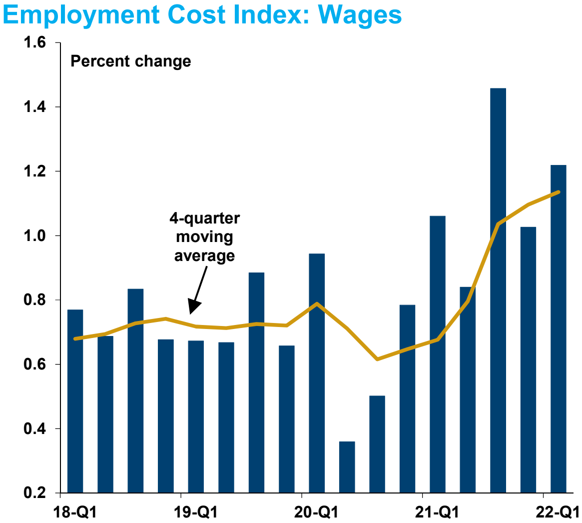
Although the change in wages lagged that for benefits, it was still brisk at 1.2 percent (the fourth increase in the past five quarters of 1.0 percent or more; up 4.6 percent on a year-over-year basis; chart, right). The latest year-over-year change was the fastest since the third quarter of 1985 (4.9 percent), although a few other observations were close.

Employment Cost Index: Benefits



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Wages



Source: Bureau of Labor Statistics via Haver Analytics