Consumers Continue To Carry the Economy

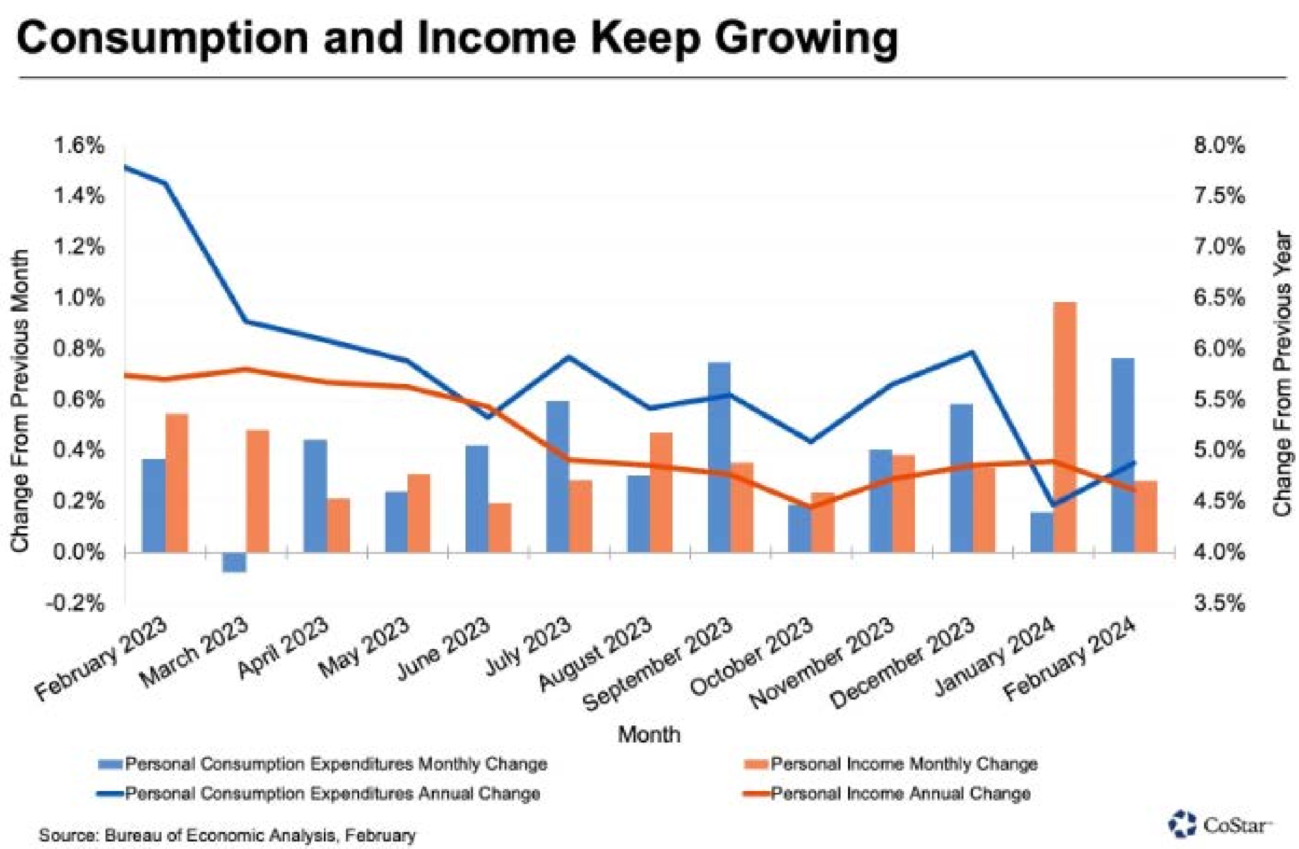
Growth Appears To Be on a Rosy Trajectory

By Christine Cooper and Rafael De Anda

Economic growth in the first quarter of 2024 appears to be on a rosy trajectory.

Multiple reports show that consumers continue to carry the economy by spending freely despite still-elevated inflation and debt levels ticking higher. Growth in the 2% to 2.5% range for the first quarter appears likely, boosted by solid momentum from the second half of last year.

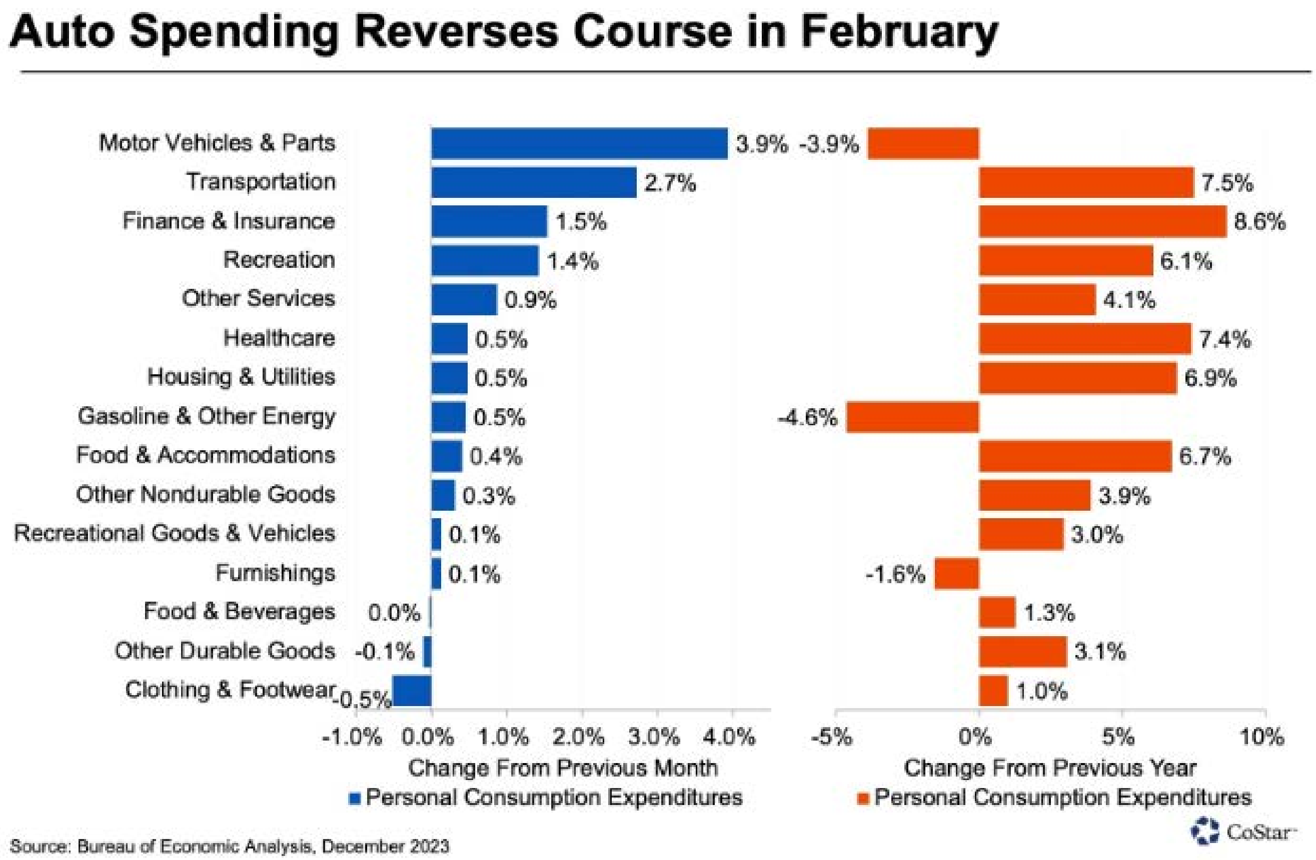
The Bureau of Economic Analysis released two reports last week. The first was the third (and final) estimate of gross domestic product for the fourth quarter of 2023, which was revised higher than its earlier estimate from 3.2% to 3.4% on an annualized basis. The second release was for monthly personal income and consumption expenditures, a large portion of GDP, showing consumption increased by a whopping 0.8% in February and accelerating by 4.9% over the prior year.



Personal income grew more modestly than consumption in February, up 0.3% during the month. When income growth is outpaced by consumption, households spend a larger share of their income, dipping into savings. The savings rate fell to 3.6% in February, its lowest rate since

December 2022. However, incomes rose sharply in January and were unmatched by spending that month, which could help explain why consumers felt OK about their robust spending in February.

That equity markets have seen prices rise by 10% over the past few months, boosting household wealth, can only add to consumers' feelings of prosperity.



More robust sales of automobiles helped spur a 3.9% increase in spending on motor vehicles and parts in February.

But most of the monthly spending increase was for services rather than on goods. "Revenge spending" on travel and entertainment, a consequence of the pandemic when households were mostly hunkered down, might be a cliche by now. However, the data shows that spending on these leisure-related services remains strong. For example, while the broader category of transportation services grew 2.7% in February and was 7.5% higher than a year ago, spending on air services was 20.6% higher year-over-year in February.

Other services, such as finance and insurance, and medical care, all saw higher spending in February.

Of course, some of the increases in spending were due to higher prices. The personal consumption expenditures price index was up 0.3% in February and 2.5% over the year. The core PCE, which excludes volatile food and energy prices and is the Federal Reserve's preferred measure of inflation, was up 2.8% over the prior year, above the Fed's target rate of 2%.

However, inflation has shifted away from goods and toward more labor-intensive services. With wage gains still solid in the labor market and consumers leaning more into buying services, inflation in that segment has been stickier as providers of these services have no reason to lower prices or slow price increases. So-called "supercore" inflation, or core inflation of services excluding housing, has been easing somewhat for the past 12 months but was at 3.3% in February.