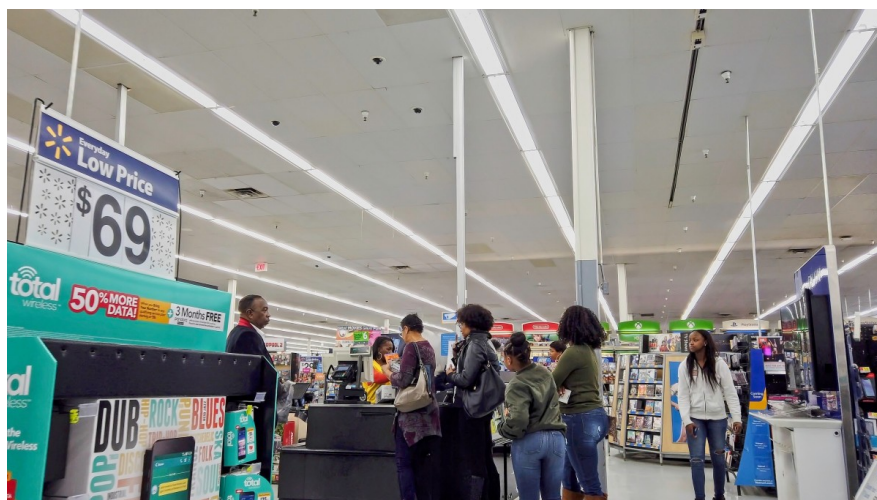


US: Got cash, will spend... and complain about the price

The US personal income report shows incomes are strong, households are spending and prices are rising. The arguments for the Federal Reserve to stop stimulating are only growing

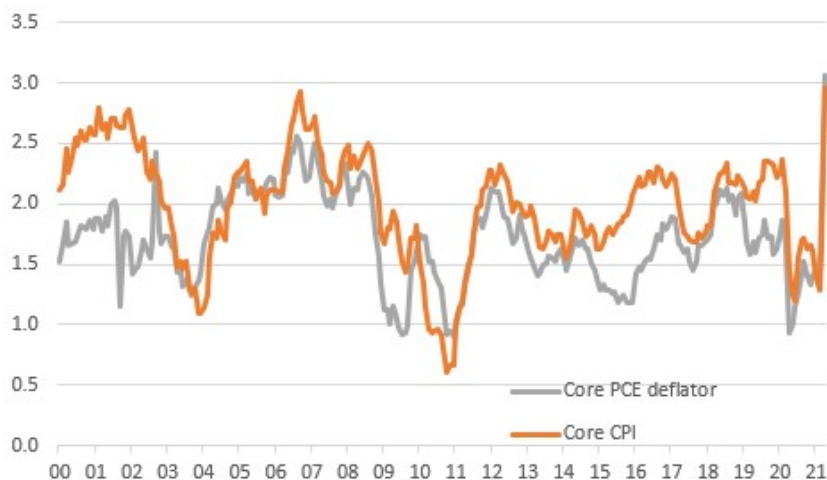


Inflation becoming ever more obvious

So the April core PCE deflator reading (the Federal Reserve's favoured inflation measure) has come in above consensus at 3.1% year-on-year versus expectations of 2.9%. This is the highest figure since 1992, but of course the Fed keeps telling us high inflation readings are going to be transitory and with one month of data you can't really argue much.

Nonetheless the reasons supporting the Fed's relaxed attitude towards inflation keep being chipped away - pipeline pressures, rising inflation expectations, no sign of any easing of supply chain strains, employment costs rising at 15 year highs etc. Given a strong economy that is creating jobs we continue to suspect the Fed's Jackson Hole conference could be a key date (late August) where we see the Fed adjust its position and pave the way for a 4Q21 taper announcement.

Both core CPI and PCE at multiyear highs



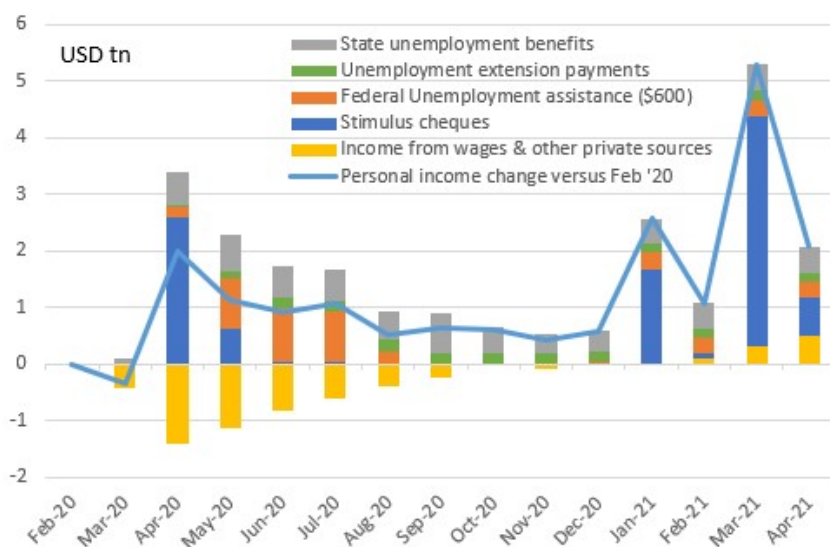
Source: Macrobond, ING

Incomes fell, but watch the private income component

Other than that, income fell 13.1%, given we didn't get another \$1400 stimulus payment from the government while personal spending rose 0.5%, in line with expectations.

Just on incomes, there have been quite a lot of revisions to the wages and other private-sector sources component, so it seems as though the recovery in private income has been stronger and came earlier - wage income rose above pre-pandemic levels in December, rather than in March as had previously been indicated. This is an excellent story that can drive spending in the months and quarters ahead.

Personal income levels versus February 2020

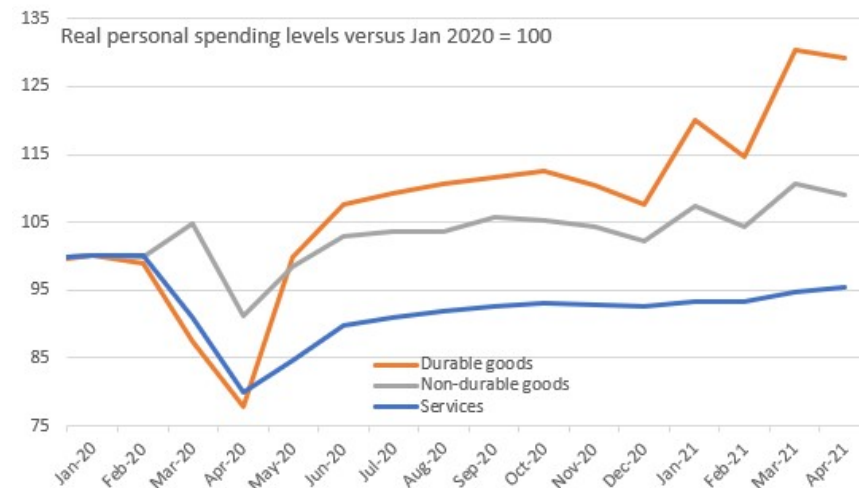


Source: Macrobond, ING

In any case, income levels have consistently remained above pre-pandemic levels when you add in all the government support. This explains why consumer spending has been able to grow while at the same time households have paid down credit card balances and have increased cash, checking and time savings deposits by \$3tn since late 2019.

That is a big war chest that can keep spending strong, especially when you factor in rising private incomes.

Real consumer spending



Source: Macrobond, ING

Spending is rebalancing towards services

Admittedly spending in real terms did drop marginally in April due to lower durable goods expenditure (ones that should last more than three years – so not perishables such as food). But this is probably due to not having a windfall cash payment. In any case spending on durables is still up 30% on January 2020's levels, while spending on services is still down 5% on those levels.

As the re-opening gathers momentum we expect to see the service sector narrow the gap with households choosing to spend a more significant proportion of income on travel and leisure. Importantly, this does not mean spending needs to fall in other areas.

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