MONDAY ECONOMIC REPORT

Spending Jumps in January as Savings Rate Fell to Lowest Level since 2013

By Chad Moutray – Feb. 28, 2022

The Weekly Toplines

- Personal consumption expenditures jumped 2.1% in January, bouncing back strongly after falling 0.8% in December. On a year-over-year basis, personal spending rose 11.8%. Personal income was essentially flat in January. Total manufacturing wages and salaries rose 0.3% in January, with 5.8% growth year-over-year. The personal saving rate decreased to 6.4% in January, the lowest rate since December 2013.

- Measures of consumer confidence fell in the latest data, largely on inflation concerns. The University of Michigan said that sentiment declined to the lowest reading since October 2011, whereas the Conference Board's measure was more mixed in its assessments.

- The PCE deflator rose 0.6% in January. Excluding food and energy prices, the PCE deflator increased 0.5% in January, matching the pace seen over the prior three months. Overall, the PCE deflator has risen 6.18% year-over-year, the greatest increase since February 1982. Core inflation has increased 5.2% since January 2021, the fastest pace of inflation since April 1983.

- The Federal Reserve will wind down its asset purchases, with quantitative easing ending in early March. The Federal Open Market Committee is also likely to increase short-term interest rates as soon as the March 15–16 meeting, with three or four rate hikes expected this year. That first increase is likely to be 25 basis points, at least for now.

- After expanding in January at the slowest pace since October 2020, the IHS Markit Flash U.S. Manufacturing PMI rebounded in February. The index for future output also improved to the strongest reading since November 2020, pointing to optimism about production moving forward despite ongoing supply chain bottlenecks, workforce shortages and pricing pressures.

- The two regional manufacturing surveys out last week moved in different directions. In the Kansas City Federal Reserve Bank's district, activity continued to expand solidly in February, accelerating for many key measures. Yet, expected indices for raw material costs and product prices both jumped to all-time highs, suggesting that firms believe sizable inflationary pressures will persist over the coming months.

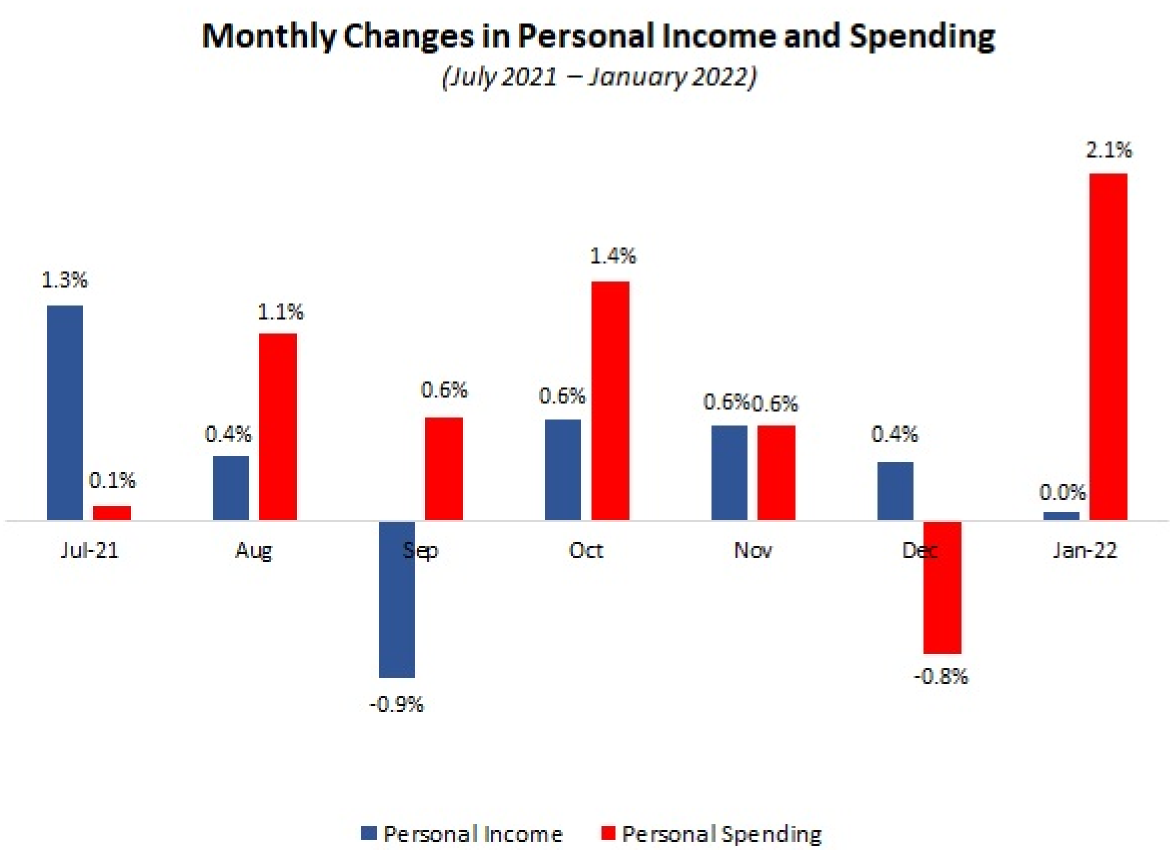
- In contrast, manufacturing activity slowed to a crawl in February in the Richmond Fed's district, expanding at the slowest pace since September. Companies continued to be challenged by supplier issues, as indicated by reduced inventories and long vendor lead times. Inflation remained a significant challenge, even with some easing in February.

- New orders for durable goods rose 1.6% to a record $277.5 billion in January. Core capital goods—a proxy for capital spending in the U.S. economy—increased 0.9% to $80.0 billion in January, also an all-time high. Overall, new durable goods orders have jumped 14.1% over the past 12 months, with core capital goods orders growing 10.5% year-over-year.

- The U.S. economy jumped 7.0% at the annual rate in the fourth quarter, up from the 2.3% gain seen in the third quarter. The data also show negative impacts from ongoing supply chain disruptions and the spread of the omicron virus, with weaker-than-desired spending on consumer goods and business investment. In addition, reduced fiscal stimulus has led to a drag from government for three straight quarters.

- Overall, the U.S. economy rebounded very strongly in 2021, with real GDP soaring 5.7% following the 3.4% decline seen in 2020. The current forecast for 2022 is for 3.8% growth. However, in the first (or current) quarter, growth will be just 1.5%, largely on omicron, supply chain and pricing pressure challenges.

- The events in Russia and the Ukraine pose a notable downside risk to global growth, which could impact the outlook moving forward, although the extent of this threat will hinge on what happens in the coming days and weeks.



Economic Indicators

Last Week's Indicators:
(Summaries Appear Below)

This Week's Indicators:

Monday, Feb. 21
PRESIDENTS' DAY HOLIDAY

Tuesday, Feb. 22
Conference Board Consumer Confidence
IHS Markit Flash U.S. Manufacturing PMI
Richmond Fed Manufacturing Survey

Wednesday, Feb. 23
None

Thursday, Feb. 24
Chicago Fed National Activity Index
Gross Domestic Product (Revision)
Kansas City Fed Manufacturing Survey
New Home Sales
Weekly Initial Unemployment Claims

Friday, Feb. 25
Durable Goods Orders and Shipments
Personal Consumption Expenditures Deflator
Personal Income and Spending
University of Michigan Consumer Sentiment (Revision)

Monday, Feb. 28
Dallas Fed Manufacturing Survey
International Trade in Goods (Preliminary)

Tuesday, March 1
Construction Spending
ISM® Manufacturing Purchasing Managers' Index®

Wednesday, March 2
ADP National Employment Report
State Employment Report

Thursday, March 3
Factory Orders and Shipments
Productivity and Costs (Revision)
Weekly Initial Unemployment Claims

Friday, March 4
BLS National Employment Report

Deeper Dive

- **Chicago Fed National Activity Index:** The National Activity Index accelerated in January after slowing in December, rising from 0.07 in December to 0.69 in January. The three-month moving average slipped from 0.46 to 0.42 but remained solid. Positive index readings suggest that the U.S. economy is growing above trend. As such, the three-month moving average suggests that the national economy continues to expand despite ongoing challenges with supply chain disruptions, workforce shortages and soaring costs. In addition, the omicron variant negatively impacted growth in December, and the latest figures suggest that the economy has rebounded as the number of COVID-19 cases have waned somewhat, at least for now.

  Manufacturing production rose 0.2% in January, rebounding slightly after edging down 0.1% in December. Manufacturing capacity utilization inched up to 77.3% in January, matching the rate seen in November, which was the strongest reading since December 2018. Along those lines, production-related indicators added 0.29 to the NAI in January, bouncing back after subtracting 0.10 from the NAI in December. In addition, employment-related indicators contributed 0.14 to the headline index in January, with personal consumption and housing adding 0.23.

- **Conference Board Consumer Confidence:** Consumer confidence declined from 111.1 in January to 110.5 in February, according to the Conference Board. Although Americans in general seem to be feeling better about current economic conditions, survey respondents felt less upbeat in their outlook for the future, with inflation remaining a concern. The percentage of respondents suggesting that business conditions were "good" decreased from 20.0% to 18.7%, while the percentage feeling that conditions were "bad" declined from 27.4% to 24.7%. At the same time, the percentage of respondents suggesting jobs were "plentiful" decreased from 55.0% to 53.8%, while those saying jobs were "hard to get" edged down from 12.0% to 11.8%.

Regarding the outlook, the percentage of consumers anticipating better business conditions over the next six months inched down from 23.6% to 23.4%, while those predicting a worsening of conditions declined from 19.7% to 18.1%. Meanwhile, the percentage of respondents expecting more jobs in the next six months decreased from 22.1% to 21.3%, while those expecting fewer jobs rose from 16.6% to 17.9%. In addition, 16.2% of consumers predicted higher incomes in the months ahead, down from 15.7%, while the percentage anticipating reduced incomes remained unchanged at 12.1%.

- **Durable Goods Orders and Shipments:** New orders for durable goods rose 1.6% from $273.2 billion in December to a record $277.5 billion in January. Sizable gains occurred in nondefense aircraft and parts, which can be volatile from month to month, lifting transportation equipment sales by 3.4%, even with motor vehicles and parts orders down 0.4%. Excluding transportation equipment, new durable goods orders increased 0.7% in January.

  In addition to nondefense aircraft and parts, demand increased in January for machinery (up 2.3%), computers and related products (up 2.2%), other durable goods (up 1.0%), primary metals (up 0.2%) and fabricated metal products (up 0.1%). In contrast, and in addition to declines in motor vehicles and parts, sales weakened for defense aircraft and parts (down 41.1%), communications equipment (down 6.6%) and electrical equipment and appliances (down 0.7%). Core capital goods (or nondefense aircraft and parts excluding aircraft)—a proxy for capital spending in the U.S. economy—increased 0.9% from $79.3 billion in December to a record $80.0 billion in January.

  Overall, the durable goods data continue to reflect a strong upward trend, even as manufacturers struggle with supply chain bottlenecks, worker shortages and soaring costs. New orders have jumped 14.1% over the past 12 months, or 11.0% with transportation equipment excluded. Similarly, core capital goods orders have grown 10.5% since January 2021.

  Meanwhile, durable goods shipments rose 1.2% from $267.3 billion in December to a record $270.4 billion in January. On a year-over-year basis, durable goods shipments have risen 8.7%, or 11.7% excluding transportation equipment. In addition, core capital goods shipments increased 1.9% from $77.6 billion to $79.1 billion, an all-time high, with 10.7% growth over the past 12 months.

- **Gross Domestic Product (Revision):** The U.S. economy jumped 7.0% at the annual rate in the fourth quarter, up from the 2.3% gain seen in the third quarter and inching up from the previous estimate of 6.9% growth. The data also show negative impacts from ongoing supply chain disruptions and the spread of the omicron virus, with weaker-than-desired spending on consumer goods and business investment. In addition, reduced fiscal stimulus has led to a drag from government for three straight quarters.

  Overall, the U.S. economy rebounded very strongly in 2021, with real GDP soaring 5.7% following the 3.4% decline seen in 2020. The current forecast for 2022 is for 3.8% growth. However, in the first (or current) quarter, growth will be just 1.5%, largely on omicron, supply chain and pricing pressure challenges. The events in Russia and the Ukraine pose a notable downside risk to global growth, which could impact the outlook moving forward, although the extent of this threat will hinge on what happens in the coming days and weeks.

- **IHS Markit Flash U.S. Manufacturing PMI:** After expanding in January at the slowest pace since October 2020, the IHS Markit Flash U.S. Manufacturing PMI rebounded in February, with activity picking up as the impacts of omicron variant waned. The headline index rose from 55.5 in January to 57.5 in February. New orders (up from 53.7 to 57.8), exports (up from 49.8 to 54.2), output (up from 50.5 to 52.5) and hiring (up from 50.3 to 52.5) accelerated in the latest data. The index for future output (up from 76.9 to 77.4) also improved to the strongest reading since November 2020, pointing to optimism about production moving forward.

  Yet, manufacturers continued to cite supply chain bottlenecks and workforce shortages as significant challenges to growth, and delivery times (up from 23.2 to 25.2) remain too long, even with some easing in February. Pricing pressures continued to be very elevated and not far from recent record highs. Nonetheless, input costs (down from 80.0 to 78.4) rose at the slowest pace since May. Output prices (up from 68.9 to 71.1) accelerated in February but have trended slightly slower since the record pace set in October (76.4).

  Meanwhile, the IHS Markit Flash Eurozone Manufacturing PMI edged down from 58.7 in January to 58.4 in February, which was also the average reading for the past six months. (For the six months prior to that, the average was 62.7, illustrating the deceleration in activity seen since then.) Despite some slippage in the headline index, new orders, exports and employment improved somewhat in February, with output slowing slightly. Encouragingly, the index for future output rose to the highest level since June, signaling optimism about increased production over the next six months. Delivery times remained very long but were the best since January 2021. Input prices decelerated for the fourth straight month from October's record pace but continued to rise very fast. Likewise, output prices eased a bit but remained not far from record rates of growth.

  Germany's manufacturing activity slipped to a two-month low in February on slower output growth. However, in France, stronger new orders, output and hiring helped buoy the manufacturers to the best headline reading since the summer. Outside the Eurozone, the IHS Markit/CIPS Flash United Kingdom Composite PMI was flat for the month, with stronger new orders and production but weaker employment and exports. Raw material costs eased slightly in all three markets but hovered near record levels.

- **Kansas City Fed Manufacturing Survey:** Manufacturers in the Kansas City Federal Reserve Bank's district continued to expand solidly, with the composite index of general business activity rising from 24 in January to 29 in February, a nine-month high. New orders, exports, production, shipments, employment and the average employee workweek accelerated in February, with sales growing at the fastest pace since May and output, shipments and exports reaching their best rates since July. The index for prices paid was unchanged in February (64), remaining very elevated but off from the record rate seen in May (88). In their comments, manufacturers continued to cite supply chain disruptions, soaring costs, logistics problems and workforce difficulties as significant challenges.

  Nonetheless, manufacturers in the district remained optimistic about growth over the next six months, with the forward-looking composite index edging up from 37 to 38, the strongest reading since April. The expected indices for raw material costs and product prices both jumped to all-time highs in February, suggesting that firms believe sizable inflationary pressures will persist over the coming months.

- **New Home Sales:** New single-family home sales declined 4.5% from 839,000 units at the annual rate in December, which was the strongest pace in nine months, to 801,000 in January. Sales fell in every region except the West. Despite the easing in the latest data, new home sales have trended higher since October, when 667,000 units marked the slowest rate since April 2020. Overall, affordability issues, supply chain problems and workforce shortages continued to challenge the housing market over the past year. Indeed, single-family home sales have fallen 19.3% over the past 12 months, down from 993,000 units in January 2021, which was the strongest reading since December 2006.

  The supply of new single-family homes for sale on the market rose from 5.6 months in December to 6.1 months in January. The median sales price for new homes was $423,300 in January, up 13.4% year-over-year and not far from October's record ($427,300).

- **Personal Consumption Expenditures Deflator:** The PCE deflator rose 0.6% in January, up from 0.5% in December. In January, food and energy prices increased 0.9% and 1.1%, respectively. Excluding food and energy prices, the PCE deflator increased 0.5% in January, matching the pace seen over the prior three months. Overall, the PCE deflator has risen 6.18% year-over-year, the greatest increase since February 1982. Core inflation has increased 5.2% since January 2021, the fastest pace of inflation since April 1983.

  Rising raw material costs continue to be a major concern for manufacturers, especially with supply chain disruptions and soaring pent-up demand in the marketplace. Core inflation is likely to remain elevated, even with some stabilization expected over the coming months. The current forecast is for the core PCE deflator to be roughly 2.8% year-over-year by the end of 2022.

  For its part, the Federal Reserve will wind down its asset purchases, with quantitative easing ending in early March. The Federal Open Market Committee is also likely to increase short-term interest rates as soon as the March 15–16 meeting, with three or four rate hikes expected this year. That first increase is likely to be 25 basis points, at least for now.

- **Personal Income and Spending:** Personal consumption expenditures jumped 2.1% in January, bouncing back strongly after falling 0.8% in December. In January, spending on durable and nondurable goods rose 9.7% and 2.6%, respectively. On a year-over-year basis, personal spending rose 11.8%, with durable and nondurable goods soaring 14.0% and 12.1%, respectively, and with service-sector purchases up 11.3% over the past 12 months.

  Personal income was essentially flat in January, slowing from the 0.4% gain seen in December. Over the past 12 months, personal income fell 2.1%, largely due to the distribution of stimulus checks in the comparison month of January 2021. Wages and salaries increased 0.5% in January, with total manufacturing wages and salaries rising 0.3% from $999.4 billion in December to $1,002.4 billion in January. More importantly, total wages and salaries in the economy have jumped 10.2% over the past 12 months, with manufacturing wages and salaries rising by 5.8% year-over-year, up from $947.1 billion in January 2021.

  Of note in the latest data, total unemployment insurance dropped to $26.7 billion in January, the lowest level since February 2020 ($26.2 billion), after peaking at $1,395.8 billion in June 2020.

With spending outpacing income growth, the personal saving rate decreased from 8.2% in December to 6.4% in January, the lowest rate since December 2013.

- **Richmond Fed Manufacturing Survey:** Manufacturing activity slowed to a crawl in February, expanding at the slowest pace since September in the Richmond Federal Reserve Bank's district. The composite index of general business activity declined from 8 in January to 1 in February. New orders, shipments and capacity utilization contracted for the month, but employment and capital expenditures both accelerated, with firms continuing to invest strongly in themselves. Wage growth remained robust. Companies continued to be challenged by supplier issues, as indicated by reduced inventories and long vendor lead times. Nonetheless, the forward-looking indicators continued to be encouraging, with manufacturers in the district expecting continued solid growth in activity over the next six months.

  Inflation remained a significant challenge, even with some easing in February. Costs for raw materials soared 12.27% in February. Although that figure marked an improvement from 14.32% in January, costs remained extremely elevated. Firms reported that the prices received for their goods and services increased 8.77% in February, down from 11.27% in January. At the same time, respondents anticipated an annualized 5.47% increase in costs six months from now, down from 5.83% in the prior release. Manufacturers in the district expected prices received would increase 4.92%, which is below the 5.97% predicted in the January report.

- **University of Michigan Consumer Sentiment:** The Index of Consumer Sentiment declined from 67.2 in January to 62.8 in February, the lowest reading since October 2011, according to preliminary data from the University of Michigan and Thomson Reuters. This result was slightly better than the original estimate of 61.7. Yet, Americans reported feeling more pessimistic about both current and future economic conditions, largely on inflation worries. The decline in consumer confidence stemmed almost entirely from reduced sentiment among households with income of $100,000 or more. Overall, consumer confidence has trended lower since April 2021 (88.3). Note that these data were collected before the Russian invasion of Ukraine.

- **Weekly Initial Unemployment Claims:** The week ending Feb. 19 saw 232,000 initial unemployment claims, down from 249,000 for the week ending Feb. 12. At the same time, the week ending Feb. 12 saw 1,476,000 continuing claims, down from 1,588,000 for the week ending Feb. 5 and the lowest level since the week of March 14, 1970. Overall, these data continue to reflect a labor market that has improved significantly over the course of the past year.

Questions or comments? Email NAM Chief Economist Chad Moutray at cmoutray@nam.org.