

## COSTAR ECONOMY

# Incomes stay strong, and the technical recession that wasn't

Recent data show faster growth, healthier consumers than previously thought



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The Commerce Department released revisions to past data last week that showed the economy grew more quickly in all but four quarters since the beginning of 2019. The revisions wiped out one of the two consecutive quarters of negative growth in early 2022, negating earlier reports of a technical recession.

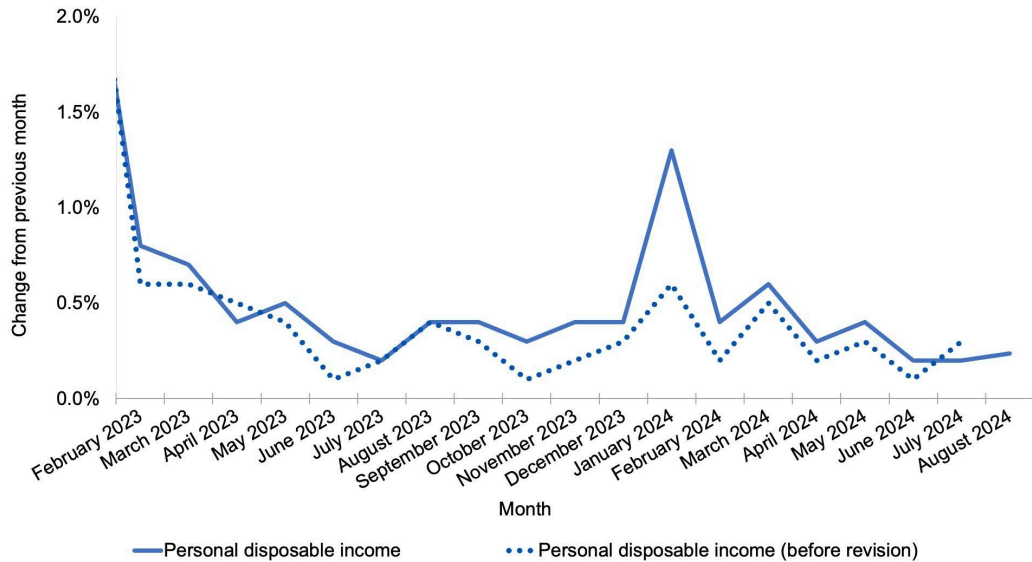
But it was the revisions to [personal income growth](#) that were the most notable, given the importance of the consumer as the mainstay of the economy. Annual real personal income growth of 3.1% continued to outpace annual real growth in personal consumption expenditures of 2.9% in August, according to the Bureau of Economic Analysis' monthly personal income report released last week.

Recent economic headlines have focused on sluggish job growth and [rising debt delinquencies](#) as risks to continued consumer spending. But the revisions show that the American consumer may be in better shape than expected and has more staying power even as the labor market weakens.

Personal income growth on a monthly basis was revised higher in 38 of the past 44 months, with the most significant upward revision in January of this year.

The August report incorporated new administrative data on wages for the first quarter of 2024 and upward revisions to initially reported wage growth data for the fourth quarter of 2023. Combined, these updates help explain the [resilience in retail spending](#) growth, which has largely beat economists' forecasts so far this year.

## Personal incomes grew faster than initially estimated



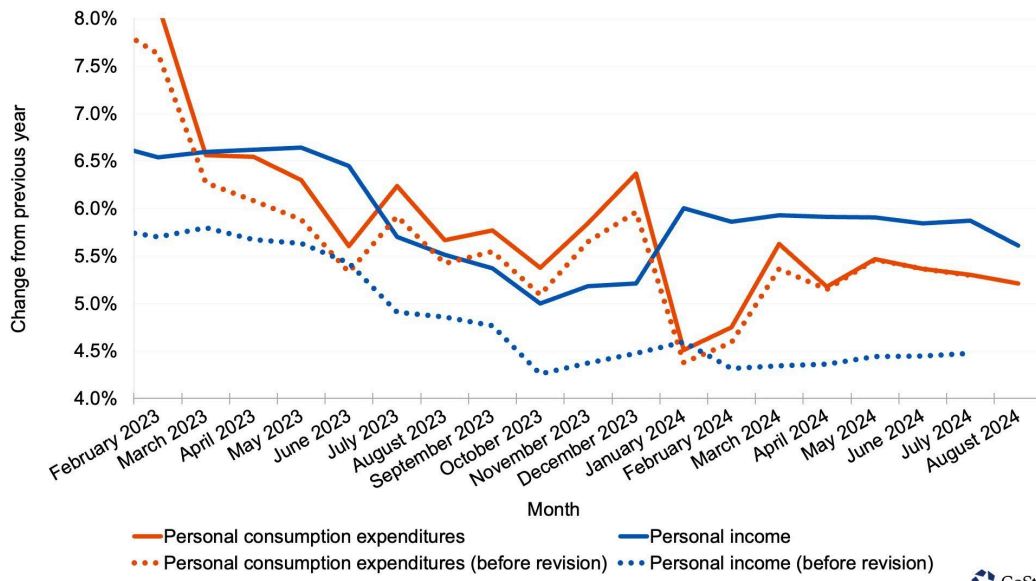
Source: Bureau of Economic Analysis, August 2024



While consumption expenditures were revised higher as well, those increases were significantly smaller than income gains, giving consumers a chance to save more.

The revisions show that year-over-year income growth outpaced expenditure growth for all of 2024 so far, a reversal of the relationship between the two variables for the entire year. Prior to the revisions, year-over-year consumer spending outpaced personal income growth in almost every month of 2024, prompting a narrative of an over-extended consumer.

## Income growth has been faster than spending growth

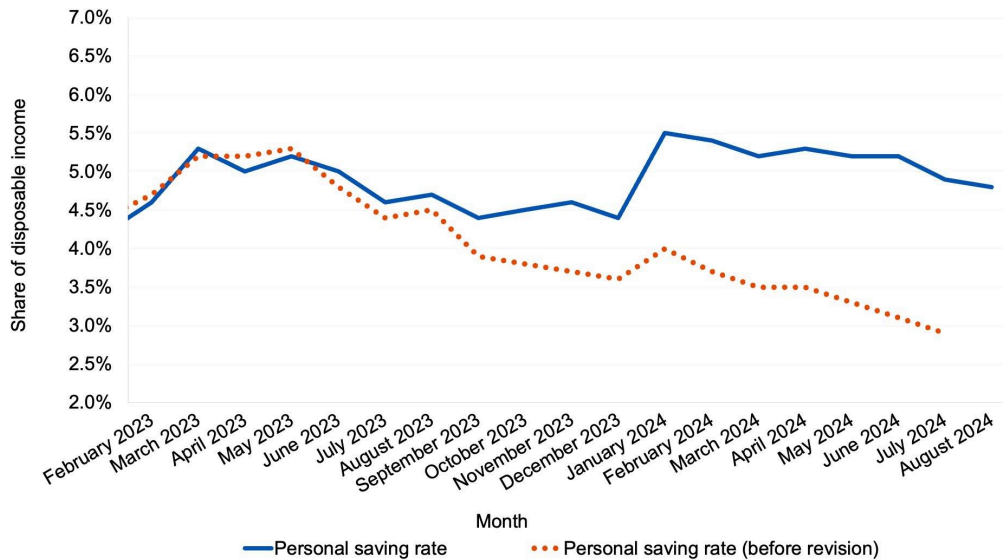


With stronger income growth than previously estimated, the most substantial upward revision came in the personal savings rate. At 4.8%, the savings rate is essentially on par with levels seen through 2023 and better than lows of between 2% and 3% during the height of inflation in 2022.

More importantly, August's revisions lifted the savings rate between 150 and 200 basis points for every month in 2024.

Analysts had reckoned that the excess savings that households accumulated during the pandemic, and which had supported robust consumer spending in the years following the pandemic, were mostly exhausted by this summer. However, the revisions to the savings rate have replenished those savings estimates to more than \$400 billion, a significant cushion to bolster households through potentially leaner times ahead.

## Higher incomes boosted the savings rate through 2024



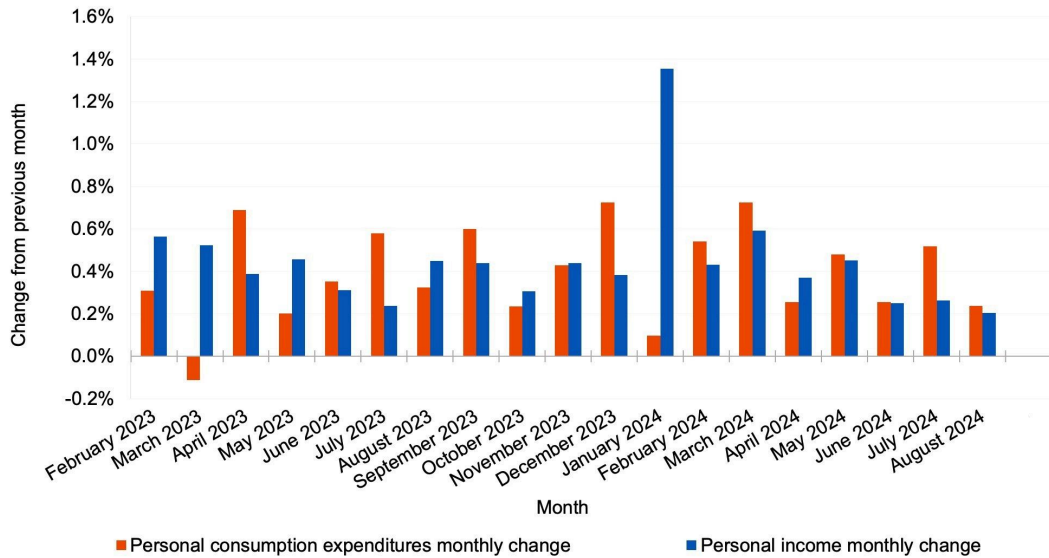
Source: Bureau of Economic Analysis, August 2024



Still, a look at more recent monthly trends of incomes and spending makes for a fuzzier narrative. Monthly growth in consumer expenditures largely matched or exceeded monthly growth in personal income in each of the past four reported months, and revisions brought disposable income growth in July down to 0.2%, from the initially reported 0.3%.

Though these more recent reports are subject to future revision, they show the gap between income growth and expenditure growth narrowing.

## Recent monthly spending faster than income growth



Source: Bureau of Economic Analysis, August 2024



The upward revisions in personal income were welcome news for economic observers after [benchmark revisions](#) to the Bureau of Labor Statistics' recent jobs report, downgrading initial gains in the year through March 2024 by almost 30%. Subsequent job growth has also been slower than expected, though slower hiring rates rather than any significant [increase in layoffs](#) appear to be the main driver of the slowdown as of yet.

At the same time, declines in energy and gasoline prices offered additional buffer for household budgets facing an increasingly uncertain job market. The personal consumption expenditures (PCE) price index, the Federal Reserve's preferred measure of inflation, fell to 2.2% in August, down from 2.5% in July largely due to falling gasoline prices. Core PCE, which excludes volatile food and energy prices, rose 2.7%, a slight increase from July's 2.6% reading but down 110 basis points from August 2023.

Ultimately, this new income and inflation data provide additional support for the Federal Reserve's shift in focus away from battling inflation to bolstering a teetering job market. All eyes will be on this week's release of the September jobs report.

## What we're watching ...

About 45,000 longshoremen and port workers at 36 East Coast and Gulf Coast ports represented by the International Longshoremen's Association began striking Tuesday after negotiations with the United States Maritime Alliance on wage increases reached an impasse.

The impact of the work stoppage on the supply chain could depend on how long it lasts. The stoppage had been long anticipated and is at least partially responsible for an uptick in import volumes through the first half of 2024 as manufacturers and retailers sought to shore up needed inventories in advance of the strike. However, each week the strike lasts could reduce U.S. gross domestic product by \$4.5 billion to \$7.5 billion or 0.1% of GDP, according to estimates by forecasting firm Oxford Economics.

*CoStar Economy is produced this week by [Christine Cooper](#), CoStar's managing director and chief U.S. economist, and [Chuck McShane](#), senior director of market analytics.*

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