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provides a personal view
on topical economic issues

""We have revised our unemployment forecast from 4.2% to 4.4% for the coming months. This reflects the growing evidence of labor market slack, which could necessitate further monetary easing to avoid a deeper downturn in employment."

October 2024 Economic Outlook: Big Revision! The BEA's $750bn boost for Consumers

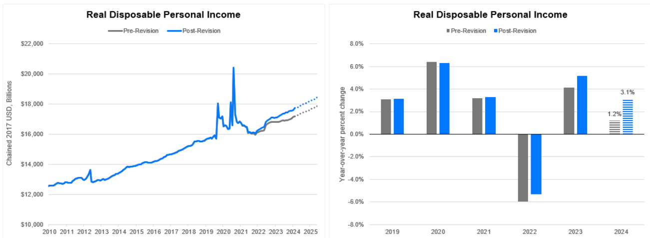
Key takeaways:

- **Stronger Household Finances: The Bureau of Economist Analysis significantly revised personal income data, prompting higher real income growth expectations for forecasts.**
- **Summary of restatement:·We see greater gains for higher-income households through revisions in asset and proprietors' income, however broadly distributed wage growth and improved savings rates indicate increased financial resilience across all income levels.**
- **Impact for planning and forecasting: Higher income growth strengthens consumer spending potential, supporting economic resilience and the Federal Reserve's soft landing goal amid policy challenges.**

1

The BEA recently released a significant upward revision to U.S. personal income data, adding $750 billion to consumer wallets in 2024 and increasing the year-to-date growth rate for real disposable personal income (RDPI) [1] from 1.0% to 2.4%.

Revised Income Data Reveals Significantly Stronger Consumer Financial Foundation



This revised data indicates a stronger economic foundation for households than previously anticipated, shedding light on the exceptional resilience in consumer spending power observed over recent years.

Prevedere update to RDPI forecast

Consequently, Prevedere has adjusted its RDPI growth forecast for 2024 from 1.2% to 3.1%. This upward revision suggests many households have greater financial resources than initially estimated, providing a more robust buffer against economic headwinds. However, the key drivers of this restatement likely reflect the 1

[1] Real Disposable Personal Income (RDPI): The amount of money individuals have available to spend or save after accounting for taxes and adjusting for inflation. RDPI reflects consumers' purchasing power over time.

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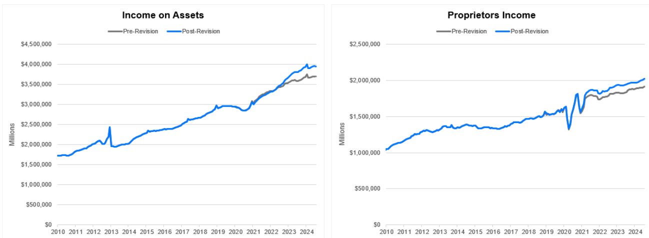
against economic[2] headwinds. However, the key drivers of this restatement likely reflect the position of higher-income households more than lower-income ones.

Income Restatement Indicates Greater Gains for Higher-Income Households



Sources of higher-income household gains

This disparity becomes evident when examining the primary components that contributed to the upward revision, which include:

- Income from assets [2]
- Proprietors' income[3]
- Wages and salaries [4]

Income from assets and proprietors' income saw significant upward revisions, disproportionately benefiting higher-income households. These demographics typically own a larger share of financial assets and business equity, allowing them to capitalize on income generated from interest and dividends. Proprietors' income, predominantly accruing to business owners, is concentrated among higher income brackets, with an estimated 85% going to the top 20% of households [4].

[2] Income from Assets: Earnings derived from investments such as dividends, interest, and rental income. This income category includes both financial and non-financial assets.

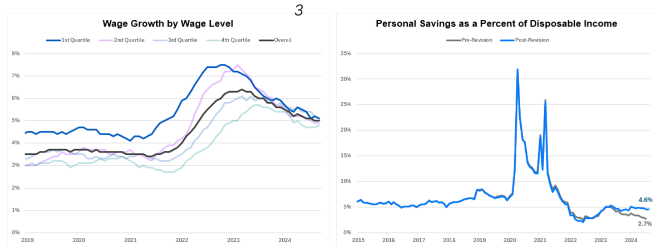
[3] Proprietors' Income: The represents the earnings by individuals running their own businesses, such as sole proprietorships and partnerships, combining both their personal earnings and profits from their investments. It is calculated after expenses but before income taxes.

[4] Wages and Salaries: The total monetary compensation paid to employees by employers for labor, including hourly wages, salaries, bonuses, and other forms of compensation. It is typically measured before taxes and deductions.

Wage growth and economic resilience

Contrastingly, the growth in wages and salaries is likely more evenly distributed across demographics. Wage growth metrics indicate that lower-income workers, alongside their middle and higher-income counterparts, continue to experience elevated growth rates. This broader distribution of income growth is economically beneficial, as it increases purchasing power across a wider segment of the population, potentially leading to higher aggregate demand and more stable economic growth.

Broad-Based Wage Growth and Improved Savings: Signs of Economic Resilience[3]



The significant carry-through impact of these revisions on the personal savings rate is remarkable. It suggests that, on the aggregate, US consumers are more financially resilient than previously thought, with a stronger buffer against economic shocks and greater potential for future spending.

Income growth and consumer spending

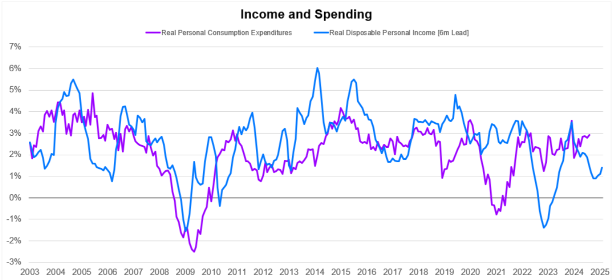
Economically, higher income growth typically translates to sustained or even elevated consumer spending — a key driver of U.S. economic growth. These increased income levels suggest a more robust foundation for future

[4] Fixler, D., Gindelsky, M., & Johnson, D. (2020). Distributing Personal Income: Trends Over Time (NBER Working Paper No. 26996). National Bureau of Economic Research.

[5] Proprietors' Income: The income earned by self-employed individuals and ow

consumer expenditure.

Income Growth as a Leading Indicator: Implications for Consumer Spending



Note: These indicators are knitted to smooth out non-economic effects from business closures and fiscal policy during 2020-2021, enabling a clearer analysis of the underlying economic relationship.

While the Federal Reserve still faces challenges in managing a softening labor market, pockets of persistent inflationary pressures, and rapidly rising delinquency rates, this revision provides some level of support for their goal of achieving a soft landing. With the improved income numbers offering a buffer that could help cushion the economy against potential downturns, easing the Fed's balancing act in monetary policy.

Q&A

Q1: Is the BEA's revision all good news, or...?

Not all good news unfortunately – we still have a lot of uncertainty around debt levels and delinquency rates, notably in amended data release we didn't see much movement there in terms of interest payments as a share of DPI, which are still at their highest levels since 2007/08. Given the low unemployment rate, we don't have a lot of softening that can happen in the labor market before this issue is exacerbated. With many economists feeling like this is already the lynch pin in the economy that the Fed won't be able to get away from.

Q2: What is the latest Prevedere Economist Team's perspective on the Federal Reserve's policy execution progress?

Our models indicate that the Federal Reserve is on the right path – but there is still a lot that can go wrong and that absolutely causes heartburn for many members of our Economist Team! Overall, we're being cautiously optimistic, and continue to closely observe and update our key external indicator models and predictions for our Customers and their own forecast and scenario outlooks.

Q3: What would you recommend companies do in this environment?

1. Tailor offerings to different income segments

Companies should develop (or further refine existing) strategies that cater to both higher-income and lower-income consumers. For higher-income households, focus on premium products and services that capitalize on their increased assets and proprietors' income oFor lower and middle-income segments, emphasize value propositions that align with their improved wage growth and financial resilience

2. Enhance Loyalty Programs

Companies should invest in robust customer loyalty programs that reward repeat purchases, especially as consumers become more financially resilient.

3. Leverage Data Analytics for Targeted Marketing

Utilize data analytics to gain insights into consumer behavior and preferences across different income levels. By segmenting the customer base and targeting marketing

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campaigns more effectively, companies can optimize their messaging and promotions to resonate with specific demographics. This targeted approach can enhance conversion rates and drive revenue growth by ensuring that marketing efforts align with consumer needs and financial capabilities.

3

Thank you

These external insights and predictive analytics were enabled by Prevedere's Platform. For more information, click <u>here</u>.

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