

## Economic highlights from the week ending on May 28, 2021

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The Federal Reserve's key inflation gauge was slightly higher than expected in April. The Personal Consumption Expenditures (PCE) index was up 3.6% year-over-year in April, versus up 2.4% year-over-year in March. Core PCE was up 3.1% year-over-year in April versus the consensus estimate of 2.9%, up from 1.9% year-over-year in March. Nevertheless, we believe the Fed is looking through the near-term inflation data. The Fed expects "base effects" (i.e., comparing current prices to prices at the early stage of the pandemic when prices were under pressure),



bottlenecks, and ongoing supply chain disruptions to cause near-term pricing pressures, but the Fed still believes these factors will largely be temporary.

Personal income fell 13.1% in April, amid a decline in government stimulus which provided a big boost in March, but consumer spending still rose 0.5% in April following a 4.7% jump in March. Income and spending levels have been volatile due to the uneven timing of government stimulus and pandemic-related unemployment benefits. Notably, nearly half of US states have now decided to end the payment of enhanced \$300 per week jobless benefits in June or July, earlier than the previously slated date of September 6<sup>th</sup>. While this may present a headwind to income and spending levels, it may also alleviate some of the wage pressure that businesses are facing as they try to rehire workers who were displaced during the pandemic. Overall, we believe continued improvement in the labor market, pent-up demand, housing and equity market gains, and elevated personal savings rates should provide a strong foundation for consumer spending trends in the second half of the year.

According to the Case-Shiller 20-City Home Price Index<sup>\*</sup>, home prices were up 13.3% year-over-year in March versus up 12.0% year-over-year in February. Low inventory and strong demand continue to put upward pressure on home prices. Phoenix (+20.0% YoY), San Diego (+19.1% YoY), and Seattle (+18.3% YoY) reported the highest year-over-year (YoY) gains among the 20 cities in the index.



### Next Week

*ISM Manufacturing, Construction Spending, Beige Book, ISM Services, Factory Orders, Employment*

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