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The Recession Has Been Rescheduled to a Later Date

Latest Economic Data Leads to Upbeat Reports

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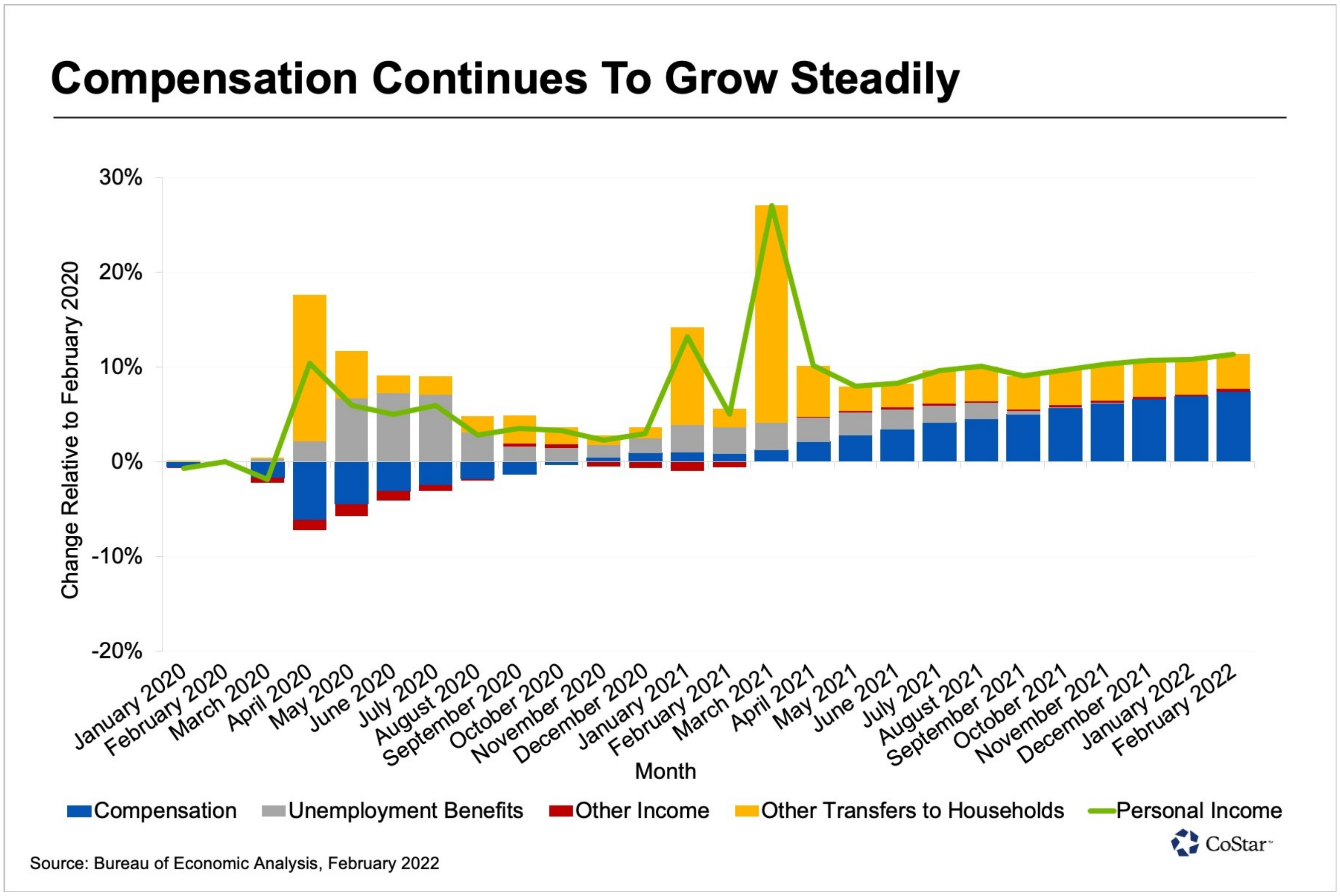
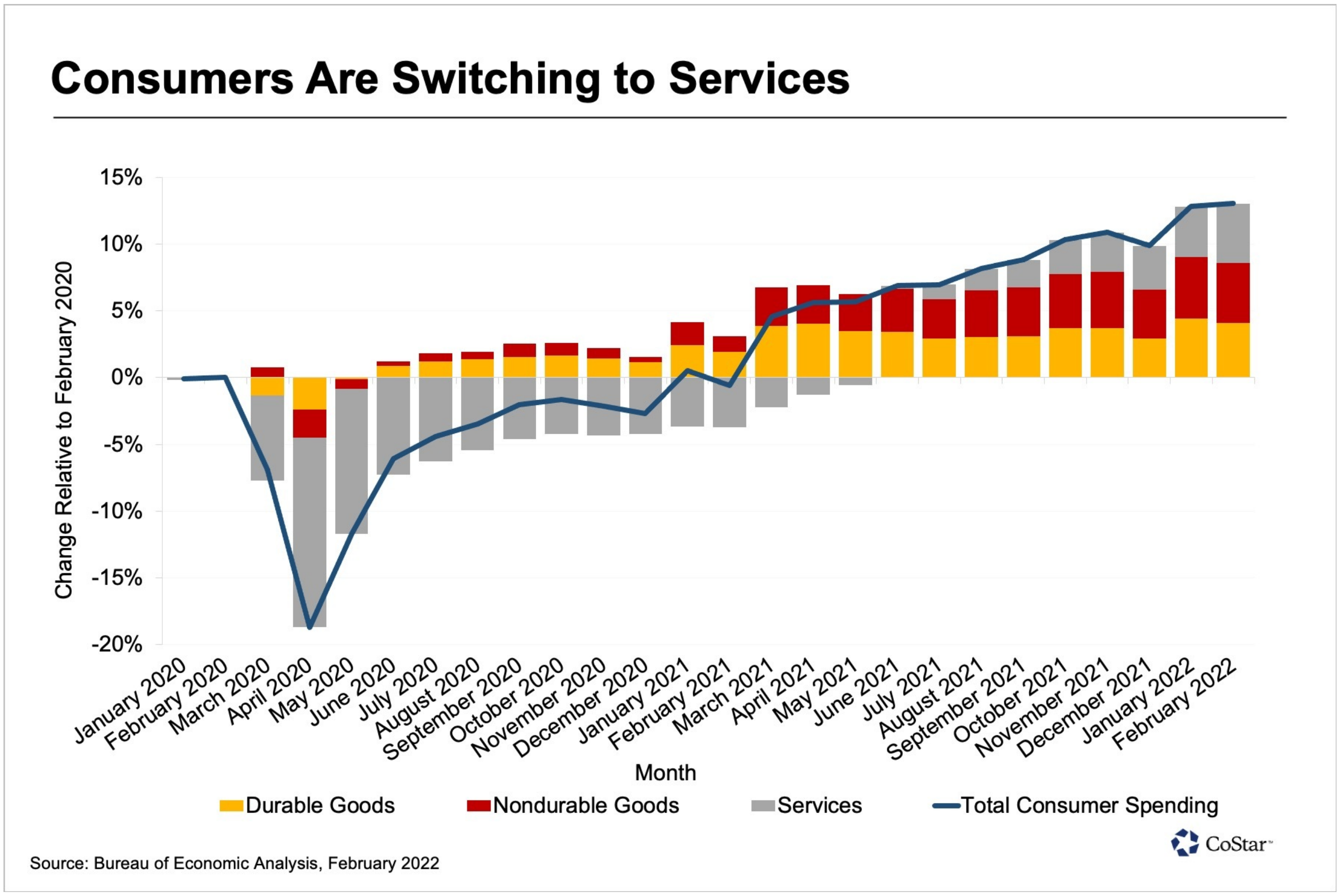
Rumblings of the growing probability of a recession have calmed down recently, as economic data is contributing to mostly upbeat reports. Household income and spending levels remain robust — albeit partly driven by rising inflation — while a strong jobs reading suggests the Federal Reserve will have plenty of wiggle room as it lifts interest rates to battle price pressures.

Personal income grew by 0.5% in February over the prior month, its highest rate since November 2021, according to the Bureau of Economic Analysis. The recent flurry of hiring paired with pay increases boosted take-home pay. Total worker compensation, which includes wages, salaries and benefits, grew by 0.7%. Meanwhile, transfer payments, which include government subsidies such as unemployment benefits, fell by 0.3% as fewer workers stood in the unemployment line.



Concerns over COVID-19 are easing, and the return to more typical patterns of consumer behavior are shifting spending patterns.

Personal consumption expenditures overall grew by 0.2% in February, but spending on goods fell by 1% while spending on services grew by 0.9%. Consumers especially dialed back spending on durable goods, such as cars and car parts, for which spending fell by 4%, and on recreational goods, which saw spending fall by 2% over the prior month. Demand for many of these items tends to be price elastic — meaning that consumers resist buying them when prices increase. In contrast, demand for nondurable goods, such as food and energy, is more price inelastic as consumers find them more difficult to do without. Spending on these goods fell by just 0.1% over the month.



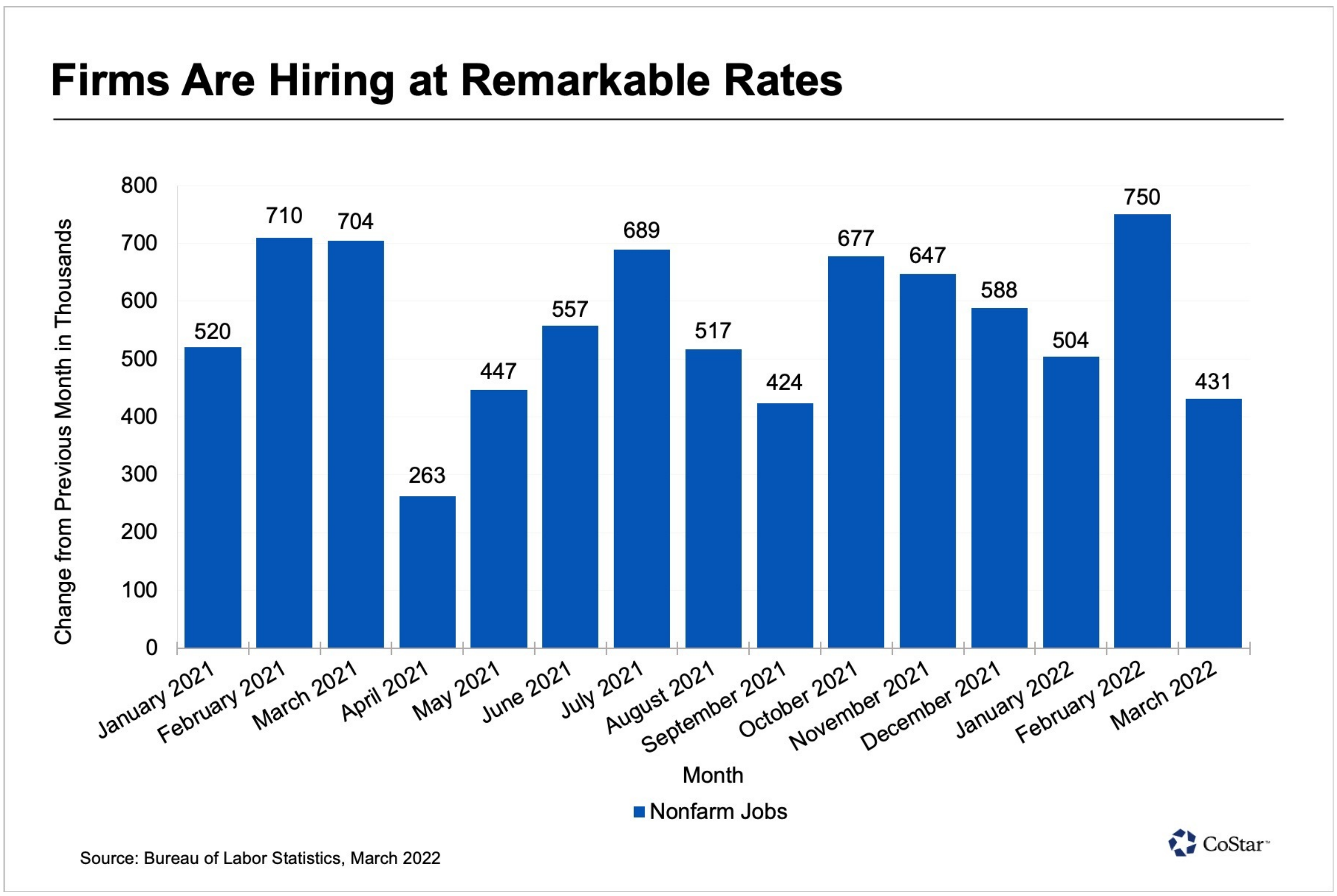
On the services side, spending on transportation such as air travel grew by 3.0% over the prior month, and spending at hotels and restaurants rose at a similar rate.

The savings rate remained low for the second consecutive month in February at 6.3%. In the five-year period prior to the pandemic, savings rates ranged from 6.5% to 9%. While now below that range, many households have bulked up on savings because of the stimulus checks sent during the pandemic and may see less need to maintain higher savings rates.

But inflation in February outpaced income and consumption growth, meaning that both fell slightly in real terms. The personal consumption expenditures price index rose 0.6% in February and 6.4% over the year. Meanwhile, the core PCE price index, which excludes food and energy and is the Fed's preferred measure of inflation, grew by 0.4% in February and 5.4% over the year.

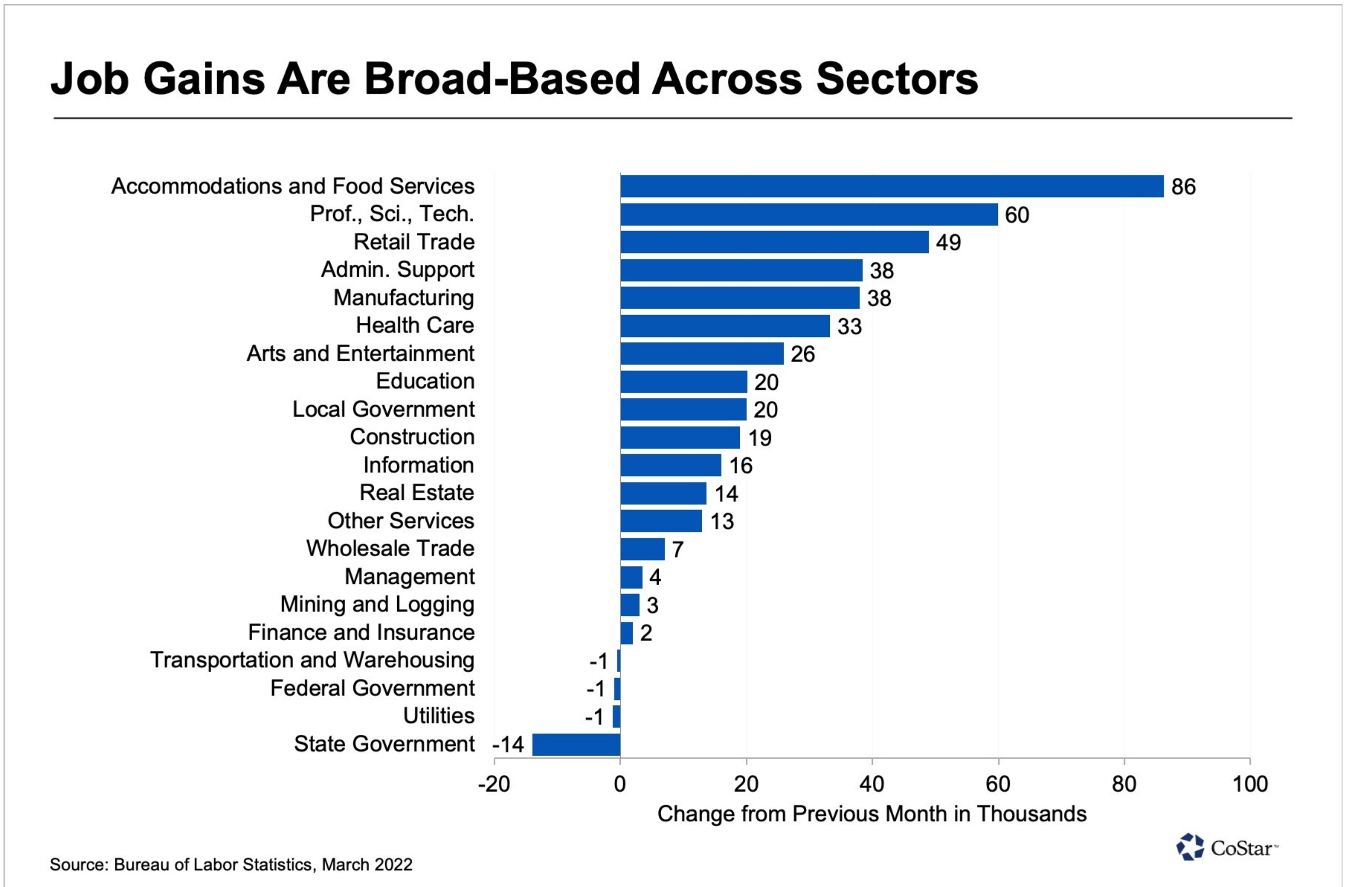
The Fed is planning several hikes this year to tame inflation, while monitoring labor market conditions for any sign that their tightening moves might stall the economy. Which is why the March jobs report was particularly uplifting.

Nonfarm payrolls grew by 431,000 positions in March, more than three times the pace of what was considered healthy prior to the most recent recession. Moreover, nonfarm job growth in February was revised from an increase of 678,000 positions to the addition of 750,000 positions, and January figures were revised from an increase of 481,000 positions to the addition of 504,000 positions. The household survey showed that the unemployment rate fell from 3.8% in February to 3.6% in March, while the labor force participation rate inched higher from 62.3% to 62.4%. That increase was almost entirely because of the welcome return of women to the workforce.



While reopening sectors like accommodation and food services, retail trade and arts and entertainment continued to account for the bulk of hiring in March, several high-wage sectors also experienced gains.

Professional and technical services firms added 60,000 positions as accountants, consultants and computer engineers saw high demand, while manufacturing ramped up employment by 38,000 jobs. The information sector, which includes internet companies and movie production companies, and financial services each added 16,000 positions.



Despite the robust pace of hiring, demand for labor continues to be quite strong. Job openings totaled 11.3 million on the last business day of February, compared to about 7 million prior to the pandemic. Meanwhile, the average hourly wage grew by 0.4% in March and is 5.6% higher than a year ago. While wage growth in March suggests that inflation is still pushing past the Fed's goal, it is also a somewhat encouraging sign of the optimistic outlook of firms toward earnings and economic growth, providing some breathing room for the Fed to raise rates without triggering a recession.

What We're Watching ...

With the economy evidently on fairly strong footing, we'll be on the lookout for turning points, such as slowing momentum in housing prices, loosening of supply chains and any signs of slowing in the labor market, as the Fed plots its way forward.

CoStar Economy is produced weekly by Christine Cooper, managing director and chief U.S. economist, and Rafael De Anda, associate director of CoStar Market Analytics in Los Angeles.

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