ECONOMIC UPDATE

REGIONS

May 31, 2016

This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the “Contents”) based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

April Personal Income/Spending: “Truth” In Spending Lies In Between March And April

- Personal income rose by 0.4 percent in April; personal spending rose by 1.0 percent, and the savings rate fell to 5.4 percent.
- The PCE deflator rose by 0.3 percent and the core PCE deflator was up by 0.2 percent in April. On a year-over-year basis, the PCE deflator was up by 1.1 percent and the core deflator was up by 1.6 percent.

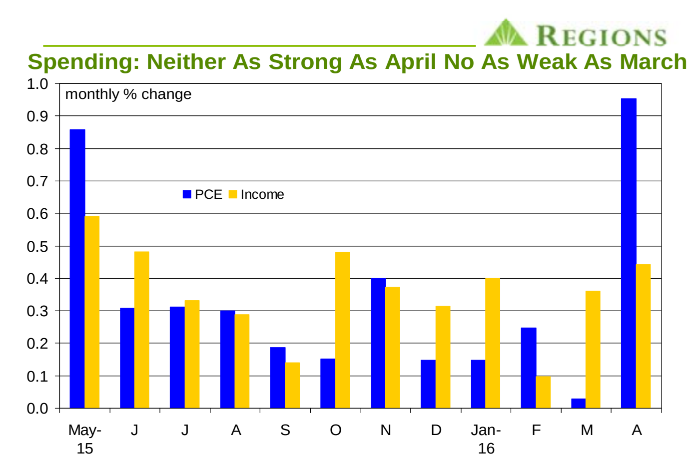
Total personal income rose by 0.4 percent in April while total personal spending jumped 1.0 percent, the largest monthly gain since August 2009. Spending growth was stronger than anticipated and, as such, even with the 0.3 percent increase in the PCE deflator, growth in real spending got off to a solid start in Q2, thus supporting the premise that current quarter real GDP growth will far outpace the anemic 0.8 percent print on Q1 growth. That said, April’s jump in spending comes on the heels of a listless March, and as we frequently note large swings between these two months are not at all uncommon in any given year, so taking the average of spending growth for the two-month period is generally the most meaningful way to look at the data.

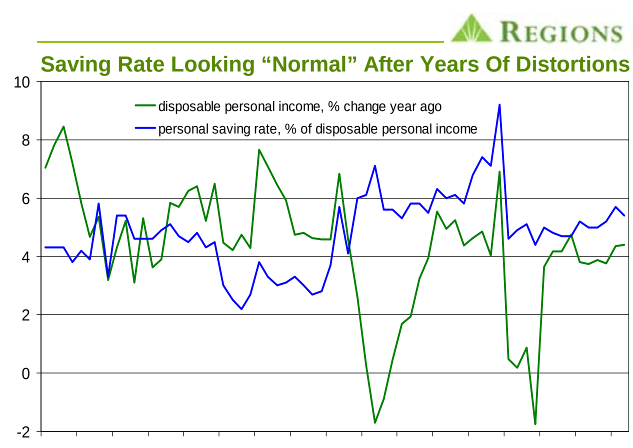
Private sector wage and salary earnings were up 0.5 percent in April, underpinning growth in total personal income. Dividend income rose 0.7 percent in April on the heels of a 0.8 percent increase in March. These solid back-to-back gains come on the heels of three very soft months for dividend income, but given what are mounting pressures on corporate profit margins, odds are the growth in dividend income seen in the past two months won’t be sustained. Transfer payments were up 0.5 percent and non-farm proprietors’ income, a good proxy for small business profits, also rose by 0.5 percent. After a string of sizeable monthly gains, rental income rose by a more sedate 0.4 percent in April, and this will be interesting to watch going forward given what looks to be some deceleration in the growth of market rents.

On an over-the-year basis, total personal income was up 4.4 percent in April, comfortably ahead of inflation. More notably, growth in private sector wage and salary earnings was up 5.7 percent year-on-year, which is in line with the underlying trend rate of growth. Keep in mind that in addition to growth in average hourly earnings, growth in aggregate wage and salary earnings is a function of the number of people working and the number of hours per week they work. For the better part of the current expansion, growth in the latter two components has fueled most of the growth in aggregate earnings, but more recently we have seen growth in hourly earnings accelerate. We expect this to continue over coming months, which in turn will push growth in aggregate labor earnings closer to a more normal pace.

Growth in personal spending was strong across the board in April, with spending on durable goods up 2.3 percent, spending on nondurable goods up 1.4 percent, and spending on services up 0.6 percent. A jump in unit motor vehicle sales helped push spending on consumer durables higher, but we know from the retail sales data that spending on electronics, household furnishings, and appliances also rose smartly in April. To some extent, higher gasoline prices helped push spending on nondurable goods higher, but after adjusting for price changes spending on nondurable consumer goods was up 0.7 percent, which tells us gains in spending were broad based. Higher utilities outlays contributed to the increase in spending on household services. Keep in mind services account for roughly two-thirds of all consumer spending but are not captured in the monthly retail sales report. This shows the folly of using that report as the yardstick by which to measure consumer spending. And, while many claim spending on health care is the sole source of growth in spending on services, this is not the case and indeed growth in spending on services has been fairly broad based for some time now.

Over the past several quarters, consumers have taken advantage of solid income growth and falling goods prices – including but not limited to gasoline – to increase discretionary spending, pare down debt, and build up saving. Oddly, however, we have sometimes found ourselves feeling compelled to point out there is not actually anything wrong with the latter two activities. Our view is that after years of distortion the saving rate will settle somewhere closer to six percent which, given steady growth in disposable income, still allows for growth in discretionary spending. One thing we have not seen during this cycle is the use of debt to finance current consumption to anywhere near the degree as seen in the past cycle. To us this is a sign consumers are on far more stable financial footing than was the case last time around.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com