



## ARGUS ECONOMIC COMMENTARY

June 17, 2024

### Has the Consumer Run Out of Steam?

The S&P 500, Nasdaq Composite index, Nasdaq 100 and S&P 100 all hit new all-time highs (ATHs) in the trading week ended 6/7/24. When indices hit new ATHs, many component stocks are also at all-time highs. With the S&P 500 and Nasdaq capturing the vast majority of high-interest and large-cap stocks, the majority of investors own stocks that also are at all-time highs. In a normal market not at or near all-time highs, at any time one or more groups of investors would be looking to exit underwater positions on any bid strength. But if few stocks are in an underwater position, the easiest path for stocks is to continue upward.

So everything is good for the investing world, right? Economic data is arguing otherwise. Both industrial and particularly consumer data show that inflation and high interest rates are wearing on spending and activity. One well-known economist recently suggested that the Fed, so to speak, was fighting the last war and needed to pivot to the situation at hand. According to Paul Krugman, “So it’s time to stop obsessing about inflation, which increasingly looks like yesterday’s problem, and start worrying about the possibility of recession as the economy’s strength finally begins to erode under the strains of high interest rates. So yes, I think the Fed should start cutting rates, and soon.”

#### The Stock Market Seems to be in Good Shape

In the first trading week of June, as noted above, major indices including S&P 500 and Nasdaq Composite reached ATHs. At peak, the S&P 500 was up 12.2% for the 2024 year to date on a capital appreciation basis (excluding dividends); and the Nasdaq Composite was up 14.4% for the year to date. On a total return basis with dividends, the S&P 500 was up 12.9% at peak, and the Nasdaq Composite was up 14.8%. A few days later, those indices have edged only slightly lower.

As we have been pointing out, the advance in 2024 is much broader on a sector basis than the advance in 2023. Growth sectors, however, are pulling away from the index, after mostly tracking the broad market for the first four months of the year. Both Communication Services (up 23%) and Information Technology (up 22%) are now ahead of the broad market’s roughly 13% total return for the year to date.

Other sectors up in double-digits year-to-date include Utilities, Financial, and Consumer Staples. Note that two of the three top-five sectors would be characterized as defensive. Three other sectors (Energy, Healthcare, and Industrials) are up in the 8%-9% range. Year-to-date laggards include two single-digit gainers (Materials and Consumer Discretionary) and the lone negative sector, Real Estate.

While it may seem like a no-brainer that all-time index highs and sector breadth would be in alignment, that is not necessarily always the case. In 2023, the S&P 500 and Nasdaq raced to new highs in a thinly supported market. When growth names such as Nvidia sold off in a rising rate environment in the August-October 2023 timeframe, the entire stock market sagged. Investors are hoping that, should investors engage in another round of profit taking in generative AI names, less growth centric sectors can take over market leadership.

#### The Consumer Does Not Seem To Be in Good Shape

Consumer Discretionary was a top-three sector in 2023. The strong sector performance last year partly reflected gen AI enthusiasm toward the AWS business of Amazon, which is the dominant stock in the Consumer Discretionary sector. But 2023 sector strength also reflected consumer spending that had not yet been impacted and even derailed by the withering

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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effects of high interest rates and the overhang of inflation.

During 2023, personal consumption expenditures (PCE) within the GDP accounts rose 2.2%. PCE actually rose more than 3% in every quarter except 2Q23, when it was up just 0.8%, thus pulling down the full-year tally. Notably, 2023 featured good balance between all-in goods spending, which rose 2.0%, and services spending, which was up 2.3%. In 2023, consumers were still spending on durable goods; spending in that category rose 4.2% for the full year. Non-durable goods spending rose 0.8% last year.

Only one quarter has been reported for 2024 GDP, and one quarter does not make a year. Still, the characteristics of consumer spending in 1Q24 were very different than those in 2023. For the first quarter of 2024, PCE was up 2.0% - not bad, until you look under the hood. All-in consumer spending on goods in 1Q24 was down 1.9% from 4Q23 levels. Durable goods spending declined 4.1%, its steepest falloff since 3Q21 when pandemic stimulus payments and supplemental unemployment benefits were winding down. Non-durable goods spending also declined in 1Q24 by 0.6%, after being flat in the advance GDP report.

Services spending by consumers was strong, rising 3.9% in 1Q24. But to paraphrase the Grateful Dead, every silver lining has a touch of gray. Anecdotally, consumers are complaining that too much of their take-home pay is being allocated to rising costs for rent, vehicle insurance, and other unavoidable non-goods spending. Rising rents and car insurance payments are crowding out big-ticket purchases such as cars and appliances, while also pressuring smaller-ticket goods such as apparel and personal electronics. Consumers also appear to be tempering restaurant spending, after the years-long post-pandemic surge that started when people were happy just to get out of the house.

The weak first-quarter trend appears to have dragged into the second quarter. According to the Census Bureau, the advance estimate of U.S. retail and food service sales for April 2024 was unchanged from March 2024 levels. On a year-over-year basis, April 2024 and trailing three-month sales (February 2024-April 2024) were both up 3.0%. During most of 2023, the annual change in retail spending was up in mid- to high-single-digits on a year-over-year basis.

The Census Bureau data shows that April total retail spending would have been down 0.2% month-over-month if not for higher spending at gas stations. Areas where goods spending increased in April include electronics & appliances, grocery stores, and clothing stores. Areas where goods spending decreased in April include motor vehicle & parts dealers, furniture stores, sporting goods and musical instruments, and non-store retailers.

A substantial number of consumers have some level of investment in the stock market via 401(k) plans and IRAs. For most consumers, retirement account values are

rising with the stock market. Home prices too are at record highs, although that may partly reflect scarcity. Given these positives, shouldn't consumer spending pick up from here?

Other factors, however, are weighing on the consumers' ability and willingness to spend. Total household debt in the U.S. reached a record high \$17.5 trillion in 4Q23. According to a study by U.S. Bank's wealth management unit, some growth in consumer spending is simply to service that debt. And a Wells Fargo study published in February 2024 found that two-thirds of Americans had decreased spending due to the economy. This includes 56% of survey respondents who "always worry about money" even though they believe that have enough for day-to-day living and minor emergencies.

We have noted that wages have been increasing at or above the rate of annual inflation for several years. But consumers are not feeling nearly as good about bigger paychecks as they are feeling bad about higher costs for everything.

### Conclusion

The consumer has an outsized role in the U.S. economy. During 2023, U.S. gross domestic product totaled \$27.4 trillion. Personal consumption expenditures of \$18.6 trillion comprised 67% of that total. In 1Q24, the U.S. consumer contribution to GDP was actually a bit higher, at 68%. However, first-quarter 2024 GDP grew just 1.3%, its weakest performance since 2Q22.

Investors are counting on a reduction in interest rates to lift both consumers' spirits and their ability to afford financed goods such as new vehicles and (at some point) homes. But with employment still high and the overall economy growing, the wait for lower rates keeps stretching out. The CME FedWatch tool suggests less than a 10% probability for a Federal Reserve rate cut at the July 2024 FOMC meeting. The probability for the September meeting is just over 50%; prior to the May nonfarm payrolls report, that probability had been 61%.

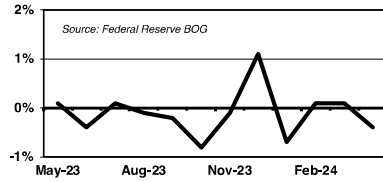
The Fed meets on November 7, 2024, two days after the presidential election; with votes potentially still being counted, few expect the Fed to act in November. Exiting the December 2024 FOMC meeting, bond investors see just a 13% probability that the Fed funds rate will still be in the 5.25%-5.50% range, as it has been since July 2003. The FedWatch tool shows a 40% probability that the fed funds rate will be 25 basis lower than at present; a 36% probability that it will be 50 bps lower; and an 11% chance that fed funds will be 75 bps lower than at present.

One of these scenarios is (or better be) right; the consumer is counting on it.

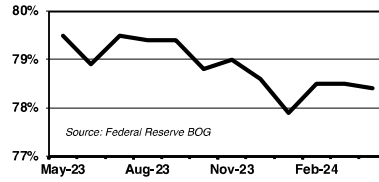
Jim Kelleher, CFA,  
Director of Research

# ECONOMIC TRADING CALENDAR

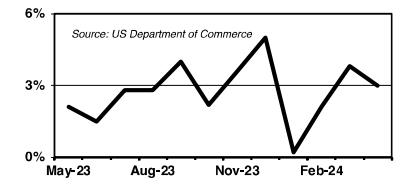
Release: **Industrial Production**  
 Date: 6/18/2024  
 Month: May  
 Previous Report: -0.4%  
 Argus Estimate: -0.5%  
 Street Estimate: NA



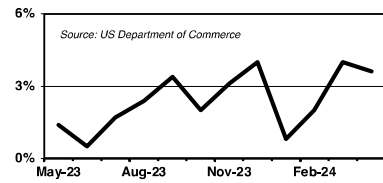
Release: **Capacity Utilization**  
 Date: 6/18/2024  
 Month: May  
 Previous Report: 78.4%  
 Argus Estimate: 78.3%  
 Street Estimate: 78.6%



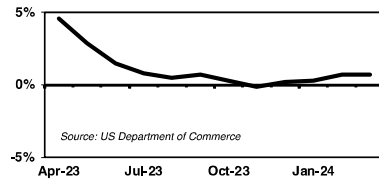
Release: **Retail Sales**  
 Date: 6/18/2024  
 Month: May  
 Previous Report: 3.0%  
 Argus Estimate: 3.3%  
 Street Estimate: NA



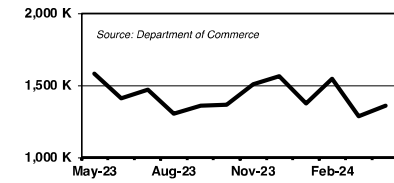
Release: **Retail Sales ex-autos**  
 Date: 6/18/2024  
 Month: May  
 Previous Report: 3.6%  
 Argus Estimate: 3.2%  
 Street Estimate: NA



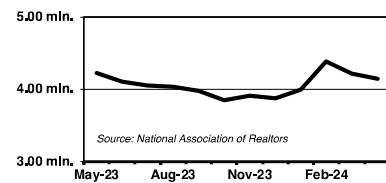
Release: **Business Inventories**  
 Date: 6/18/2024  
 Month: April  
 Previous Report: 0.7%  
 Argus Estimate: 0.8%  
 Street Estimate: NA



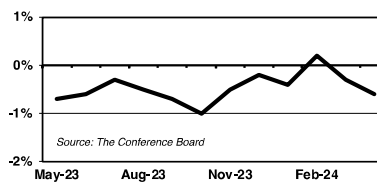
Release: **Housing Starts**  
 Date: 6/20/2024  
 Month: May  
 Previous Report: 1,360 K  
 Argus Estimate: 1,300 K  
 Street Estimate: 1,375 K



Release: **Existing Home Sales**  
 Date: 6/21/2024  
 Month: May  
 Previous Report: 4.14 mln.  
 Argus Estimate: 4.10 mln.  
 Street Estimate: 4.10 mln.



Release: **U. of Michigan Sentiment**  
 Date: 6/14/2024  
 Month: June  
 Previous Report: 69.1  
 Argus Estimate: 71.0  
 Street Estimate: 73.0



*Previous Week's Releases and Next Week's Releases on next page.*

## ECONOMIC TRADING CALENDAR (CONT.)

### Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Jun	Consumer Price Index	May	3.4%	3.4%	NA	NA
	CPI ex-Food & Energy	May	3.6%	3.6%	3.5%	NA
13-Jun	PPI Final Demand	May	2.2%	2.1%	NA	NA
	PPI ex-Food & Energy	May	2.4%	2.3%	NA	NA
14-Jun	Import Price Index	May	1.1%	0.9%	NA	NA
	U. of Michigan Sentiment	June	69.1	71.0	73.0	NA

### Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
25-Jun	Consumer Confidence	June	102.0	NA	NA	NA
26-Jun	New Home Sales	May	634 K	NA	NA	NA
27-Jun	GDP Annualized QoQ	1Q "3rd est."	1.3%	NA	NA	NA
	GDP Price Index	1Q "3rd est."	3.0%	NA	NA	NA
	Durable Goods Orders	May	1.2%	NA	NA	NA
28-Jun	PCE Deflator	May	2.7%	NA	NA	NA
	PCE Core Deflator	May	2.8%	NA	NA	NA
	Personal Income	May	4.5%	NA	NA	NA
	Personal Spending	May	5.3%	NA	NA	NA

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