

## Economic Commentary: Consumer Spending Drives Retail Price Cuts

By Amy Wolff Sorter

While many eyes have been on the (perhaps unsurprising) news that the Federal Open Market Committee opted to keep its current interest rate as is, other economic indicators have been pointing to a “slow start to the beginning of the second quarter,” said John Beuerlein, Chief Economist of the Pohlad Companies (parent company of Northmarq).

In his June 2024 report, Beuerlein indicated that Q2’s sluggish start is due to disinflation trends increasing due to higher-for-longer interest rates. Meanwhile, though continuing with strong job growth, the labor market also demonstrates a rise in unemployment.

Finally, retailers are reducing prices in response to consumers’ spending cuts.

### The Inflation Front

While inflation increased in the first three months of the year, the headline and core readings of April’s Consumer Price Index reported somewhat better news: both increased by 0.3%. This puts the headline reading at 3.4% and the core reading at 3.5%, a definite year-over-year decline.

Still, this remains above the Federal Reserve’s in-stone target of 2.0%. Additionally, “because monthly inflation readings were soft during much of the second half of 2023, it will be difficult to see much progress on the yearly inflation numbers until late 2024,” Beuerlein wrote. The exception is that, somehow, the inflation numbers come in consistently at 0.2% or below.

### Employment and Labor

In discussing the labor market, Beuerlein pointed to “mixed signals.” Certainly, non-farm payrolls increased by 272,000 in May. But unemployment increased to 4.0%, the highest level since January 2022.

In adding data from the Household Survey, Beuerlein demonstrated an actual 408,000 decline in employment and a 250,000 in the labor force. Meanwhile, the Job Openings and Labor Turnover Survey (JOLTS) showed that “the demand for labor continued to ease, with job openings falling to their lowest levels since February 2021,” Beuerlein said.

He acknowledged that employment reports regularly undergo revision, so the current data will change. “The best that can be said is that supply and demand in the labor market are continuing to move into balance,” he said.

### Consumer Spending

Finally, consumer spending gained 0.2% in April; on an inflation-adjusted basis, that increase fell to

0.1%. Another dwindling metric was real disposable personal income (by 0.1%, month over month). Savings accounts are emptying, while credit card balances are on the rise. Because of this, “consumer spending is expected to be less robust than seen in 2023 and thus a drag on GDP,” Beuerlein explained.

Retailers are noticing changes in spending patterns across all income categories. Beuerlein said that in response, many are cutting prices. Target reduced prices on 5,000 food and household products, while Walgreens announced it would cut prices on over 1,000 items. “These are just two of many examples of retailers responding to consumers’ aversions to high prices,” Beuerlein observed.