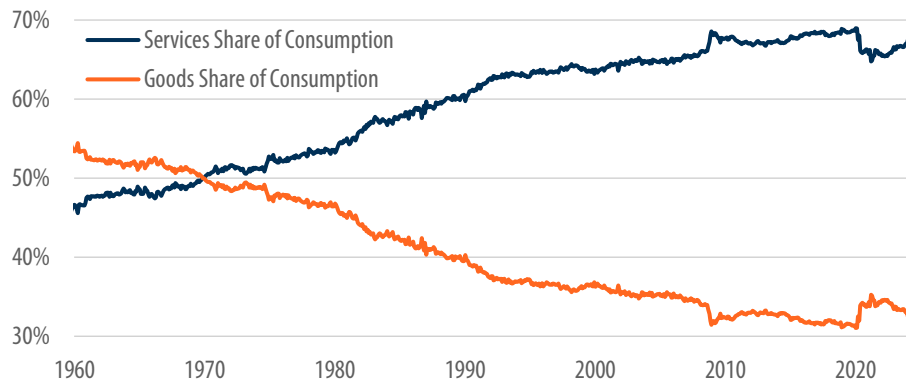


Last week's report on personal income and consumption for March showed solid gains as personal income increased by 0.5%, while personal consumption jumped by 0.8%. Over the past year, personal income has climbed 4.7%, whereas spending has surged by 5.8%. This pattern of spending outpacing income has been consistent in recent years, raising questions about its sustainability. In this week's "Three on Thursday," we delve into some of the underlying dynamics in the Personal Income and Consumption report. We believe much of the robust consumer spending of recent years traces back to the unprecedented government stimulus provided to households during the COVID-19 shutdowns. These infusions of funds, combined with limited spending opportunities early in the pandemic, led to a significant accumulation of savings well above pre-pandemic trends. But what is the current status of these excess savings? For a closer look, we have included three insightful charts in the sections below.

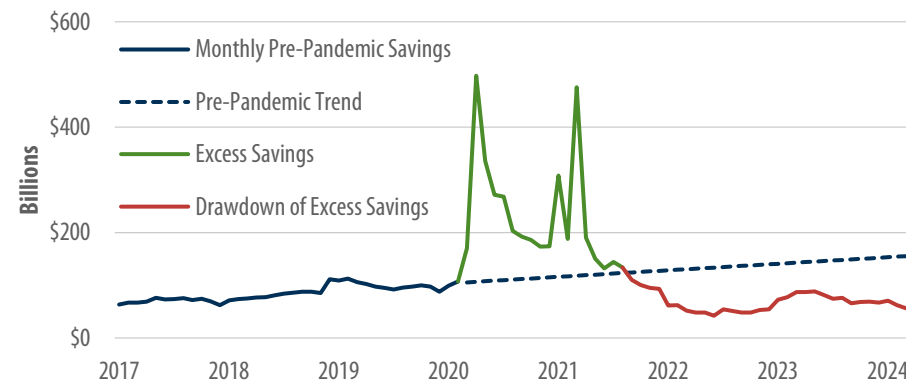
U.S. Personal Consumption Expenditures: Goods vs. Services



Source: Bureau of Economic Analysis, First Trust Advisors. Monthly data 1/1960 - 3/2024.

Consumption can be categorized into two primary segments: services and goods. Historically, services have constituted an increasing portion of total consumption, rising from 45% in 1960 to nearly 69% by early 2020. However, the onset of lockdowns drastically impacted the service sector, prompting a shift towards goods consumption. This shift was significant. From January 2020 to March of 2021, consumption of goods grew by a whopping 19.9% while over the same period services consumption fell by 0.7%. This shift increased the proportion of goods from 31% of total consumption to over 35% by early 2021. As the economy began to reopen and services became more accessible throughout 2021, this trend started to reverse. Over the past three years, services consumption rebounded strongly, increasing by 28.6%, whereas goods consumption saw a more modest rise of 14.4%. Consequently, by March 2024, the share of goods consumption has resumed its downward trend now sitting at 32.6%, while services consumption has climbed back to 67.4% of total consumption.

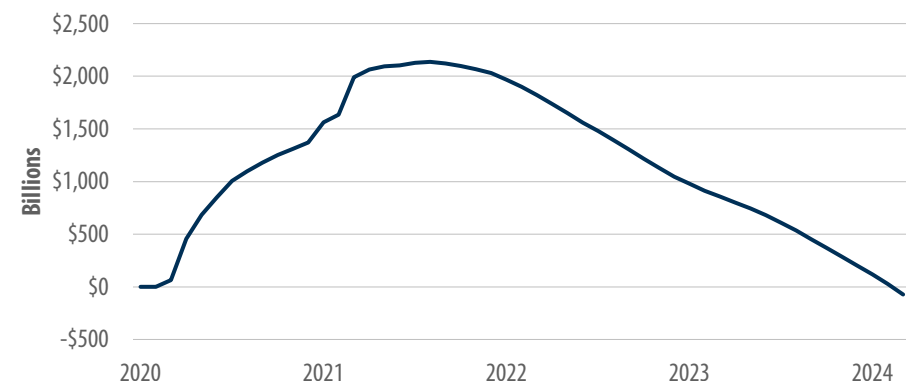
Monthly Personal Savings in the U.S.



Source: Bureau of Economic Analysis, Federal Reserve Bank of San Francisco, First Trust Advisors. Monthly data 1/2017 - 3/2024.

The surplus of actual saving over the levels projected based on pre-pandemic trends is what will be referred to as excess saving. The blue line on the chart shows saving from the beginning of 2017 through February 2020, while the blue dotted line shows if that continued trend remained. However, pandemic-related fiscal support in 2020, combined with a reduction in household spending, led to a dramatic increase in household saving across the U.S. economy. In April 2020, for instance, an unprecedented 32% of income was saved rather than spent. To put this in perspective, if pre-pandemic trends held saving should have been around \$106 billion for the month. Instead, it was \$498 billion! Almost five times larger than trend due to massive stimulus. From March 2020 to August 2021, personal saving soared above the pre-pandemic trend adding more than \$2.1 trillion in excess savings (green line) to consumer balance sheets. As the economy began to rebound, households started tapping into these excess savings to fuel spending. By late 2021, monthly household saving fell below the pre-pandemic trend and has still not come back (red line).

Stock of Excess Savings in the U.S.



Source: Bureau of Economic Analysis, Federal Reserve Bank of San Francisco, First Trust Advisors. Monthly data 1/2020 - 3/2024.

Adding up all the monthly accumulation of excess savings since the onset of the pandemic shows a peak of \$2.14 trillion in August 2021. As the economy reopened and consumption began to increase significantly, consumers started saving below the pre-pandemic saving trend, possibly because there was such a massive excess. But the data released Friday for March Personal Income and Consumption showed once again that actual saving for the month was well below the pre-pandemic trend. The problem moving forward is there is no more excess saving to offset the below trend saving. March was the first month where the \$2.1 trillion in excess savings was finally completely absorbed by the lower saving than trend over the past few years. We believe consumption growth continuing to outpace income growth, excess saving exhausted and saving well below pre-pandemic trends moving forward does not paint a rosy picture.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.