

Monday Monetary Thoughts

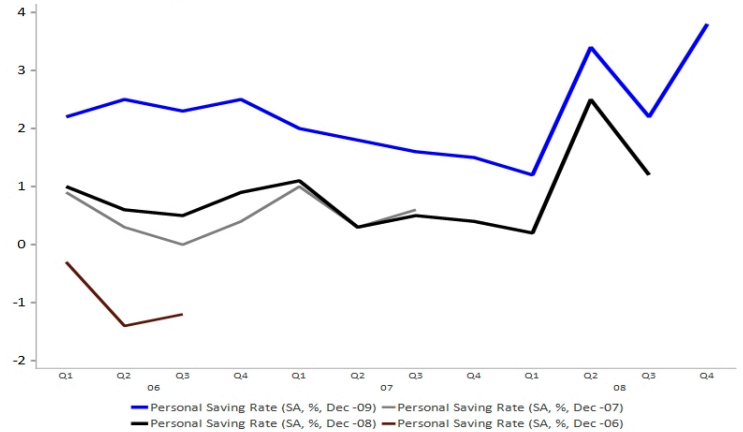
A two-handed take on the saving rate

Savings rate: On the one hand, on the other

The decline in the saving rate has received much attention, but on net, I don't assume a bad outcome simply because the saving rate is historically low.

First, the personal saving rate is notorious for being revised up because the government tends to undercount incomes in real time. Thus, as household income is "found," each vintage of the saving rate tends to get revised up. I remember this vividly in the mid-to-late 2000s. The saving rate was initially reported as negative only to be revised up later. In the end, it did not matter but the saving rate is not a useful timing tool either.

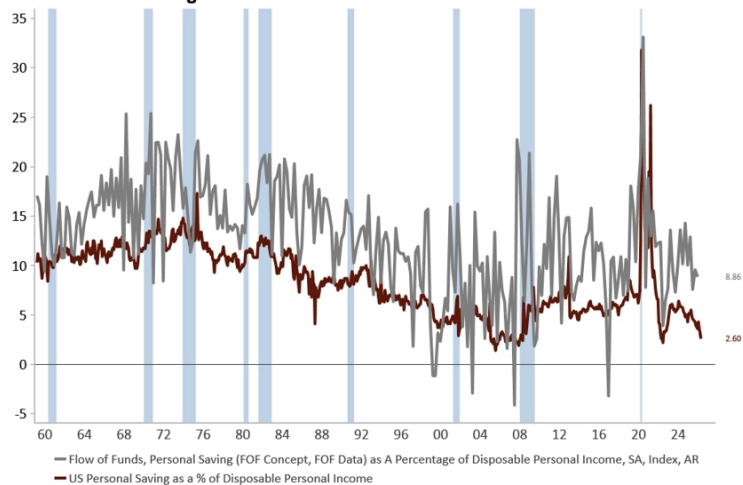
Saving rate vintages tend to get revised higher over time



Source: Renaissance Macro Research, Haver Analytics

Second, in business economics there are often multiple ways to measure the same concept. The series getting the most attention is an income-statement residual. The other series – from the Flow of Funds – shows a larger savings cushion. Instead of subtracting spending from income, it adds up what households did with their money or how much households accumulated in assets net of new borrowing.

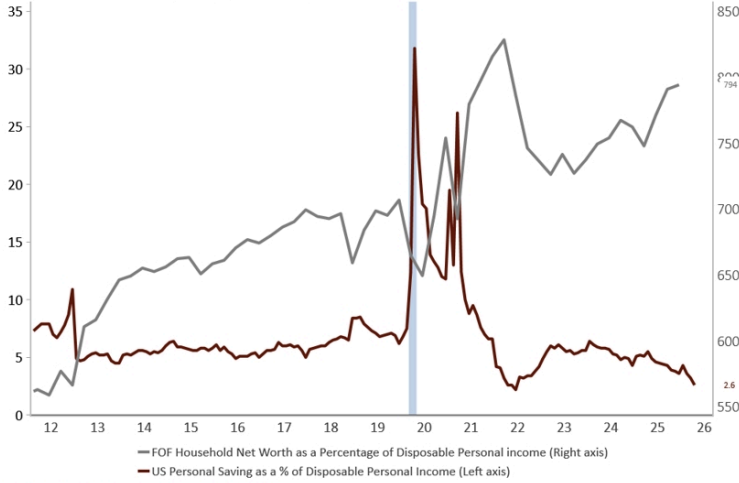
How low is the saving rate?



Source: Renaissance Macro Research, Macrobond

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The decline in savings supported by rising asset prices



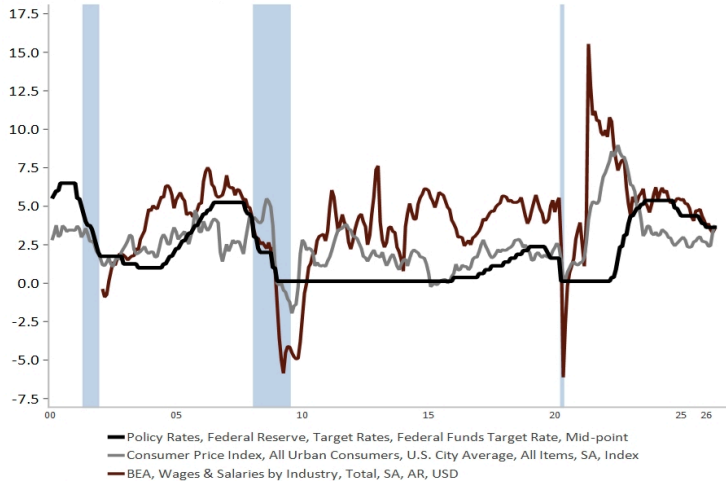
Source: Renaissance Macro Research, Macrobond

Third, the decline in the saving rate makes sense given the ongoing increase in net worth relative to incomes. Asset prices continue to climb. Households see the rise in asset prices as a low-risk form of income creation and as a result, their rates of saving fall. Notice the inverse relationship between household net worth to income, which is near a record high, and the personal saving rate, which is close to its lows.

That said, there are a couple of risks worth noting given the low level of the saving rate.

If consumers see the increase in gasoline prices as temporary, they will draw down their savings buffers to cushion the blow to maintain their level of household spending. Of course, if that intuition turns out to be correct, then the decline in gasoline prices will not do much to lift consumption. Households will end up pocketing the gas price decline, replenishing their savings buffers.

Wage growth running below both inflation and the funds rate



Source: Renaissance Macro Research, Macrobond

Importantly, instead of thinking about how low the saving rate is, the more relevant issue right now is how weak income growth is. **Nominal wages and salaries** have advanced just 3.5 percent over the last year. Not only is this below the level of consumer price inflation, a real income squeeze, it is at or below the level of the federal funds rate, when debt service becomes more difficult. Historically, it is not a welcome development when both things are true simultaneously.

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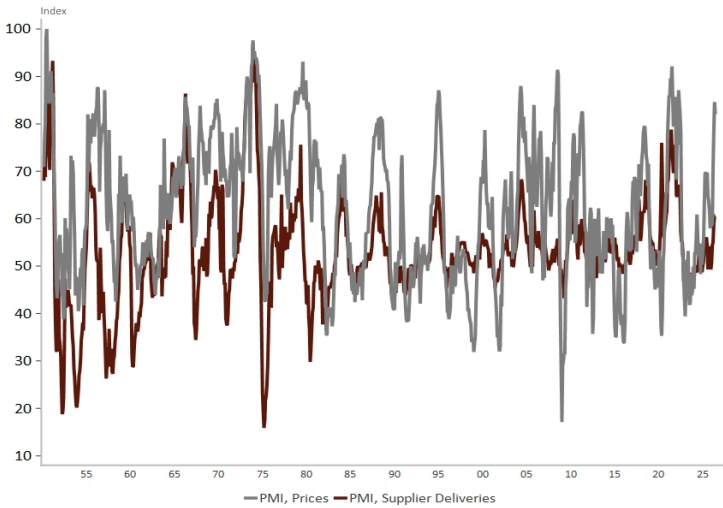
In short, given the rise in asset prices, the saving rate would likely be low regardless of a shock from higher gasoline prices. However, the speed of the recent decline – a decline of 1.7pts in three months – looks less structural than cyclical.

Factories continue to perk up this year

The ISM Manufacturing PMI improved 1.3pts to 54 in May, 1ppt ahead of consensus estimates. The new orders sub-index climbed to 56.8, the highest level since January, while the ISM production index climbed to 0.9pts 54.3, consistent with a continued expansion. Employment improved, largely reversing the decline from April though at 48.6, factories continue to shed workers.

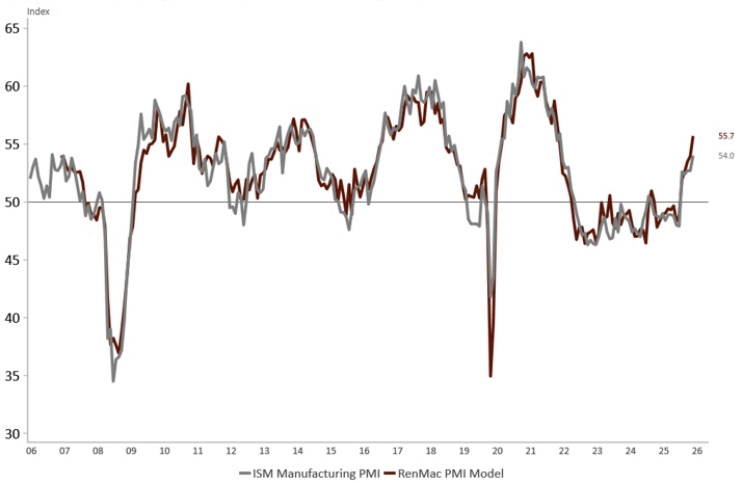
Prices and delivery times remain elevated, an unwelcome sign for the Fed and a notable feature in the ISM respondent commentary.

Prices and supplier delivery times remain elevated



Source: Renaissance Macro Research, Macrobond

ISM Manufacturing PMI to show continued growth



Source: Renaissance Macro Research, Macrobond

According to ISM, “The past relationship between the Manufacturing PMI and the overall economy indicates that the May reading (54 percent) corresponds to a 2.2-percent increase in real gross domestic product (GDP) on an annualized basis.”

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WHAT RESPONDENTS ARE SAYING

- "Impact of Iran conflict starting to directly and negatively impact cost of supply chain. Oil and related commodities are escalating in price." [Transportation Equipment]
- "The Middle East conflict is triggering shipment delays and uncertainties. Elevated gas prices and inflation will surely impact our purchases. However, over the last quarter, we've seen increased demand that was unexpected." [Machinery]
- "As with all companies, we have felt the effects of fuel-related inflation and general market uncertainty due to overall economic variability and geopolitical events that have impacted such markets as construction, automotive and agriculture, as well as the general industrial sector." [Chemical Products]
- "Continuing trends of 15-percent sales increase in April, cost increases on a majority of raw materials, and fuel charges on many inbound and outbound deliveries. We remain cautiously optimistic that if global economic factors stabilize and the Iran conflict ends, we can continue with increased sales and maintain acceptable margins." [Chemical Products]
- "Cost of diesel is having huge impacts on our profitability. Confusion abounds around tariff refunds. We purchase many imported goods but in most cases are not the importer of record, so it is currently unclear to what we may be entitled." [Food, Beverage & Tobacco Products]
- "Prices continue to rise for many products — some due to increase in data center creation for electronic components, others as a result of the Iran war and reductions in availability of oil/petroleum." [Computer & Electronic Products]
- "Supply constraints continue to propagate and are a key headwind to supporting increased aerospace and defense demand. Semiconductors, critical minerals and certain types of raw materials are illustrative examples of sales plans at risk. Corporate risk mitigation actions are underway to secure supply in the midst of constraints." [Transportation Equipment]
- "The current atmosphere is one of extreme uncertainty and concern for the future in terms of both price stability and longer-term supply continuity related to the Iran conflict and Strait of Hormuz closure. We have a lot of negotiations in process related to requested price increases, some related to oil prices and some still fallout from the 2025 tariff/geopolitical climate." [Miscellaneous Manufacturing]
- "Continued dynamic random-access memory (DRAM) volatility, increased gas prices and tariffs are causing long lead constraints and price hikes that customers are not willing to bear. Panic is starting within our industry." [Electrical Equipment, Appliances & Components]
- "Business appears to be weakening — uncertainty surrounding the Iran war, rising energy prices and customers unwilling to commit to expenditures beyond a very short term." [Fabricated Metal Products]

Looking ahead, I suspect the pace in the ISM will begin to let up. Fewer purchasing managers report their level of inventories as "too low." Indeed, 21.7 percent of respondents report their inventories as "too low," the lowest since November.

Inventory investment will start to let up



Source: Renaissance Macro Research, Macrobond

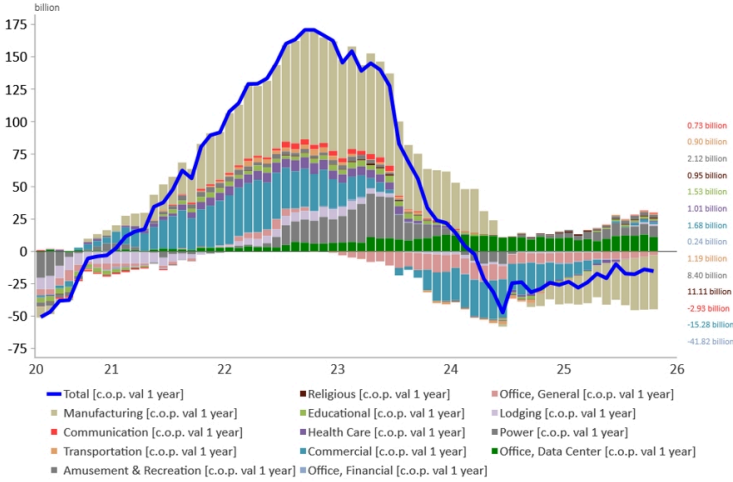
As our nearby figure shows, the customer inventories index is a useful input when thinking about the outlook for inventory investment.

Construction spending moving sideways

Total construction spending rose 0.4 percent in April though the prior month was revised down 0.4ppt. The level of nominal construction spending has declined about 0.3ppt over the last three months and is essentially flat to where it was in February given revisions. So, there is not much going on this year especially considering price inflation.

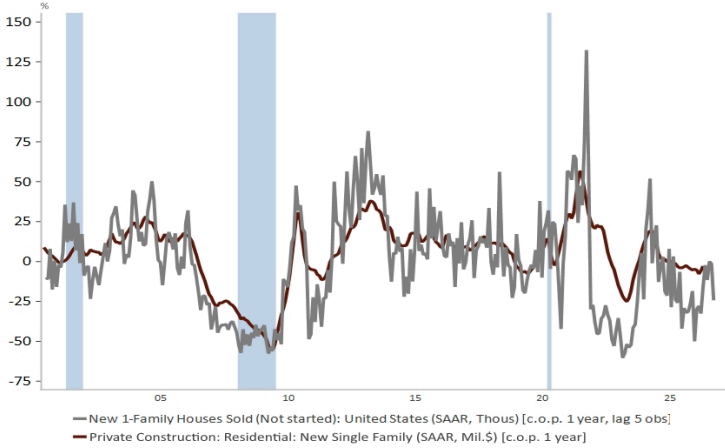
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How much of an AI structures boom?



Source: Renaissance Macro Research, Macrobond

Homes sold but not started point to weaker construction



Source: Renaissance Macro Research, Macrobond

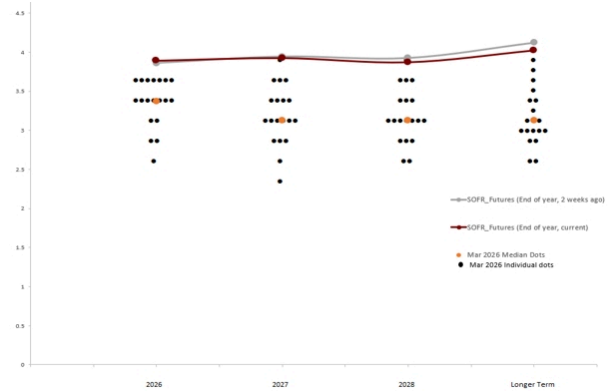
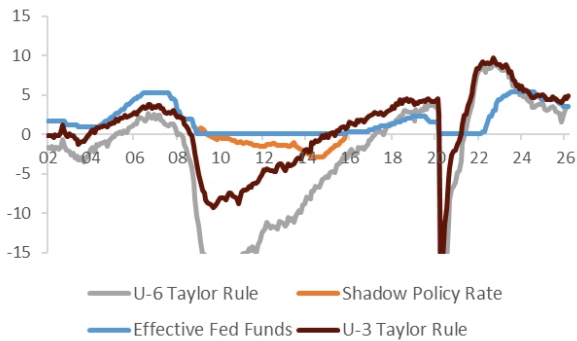
Let's run through some of the details.

Private nonresidential construction spending slid 0.2 percent over the month, extending a string of declines that dates to October 2025. In short, the decline in computer, electronic and electrical manufacturing structures is offsetting the continued improvement in data-center construction. Expect an ongoing drop in real structures investment.

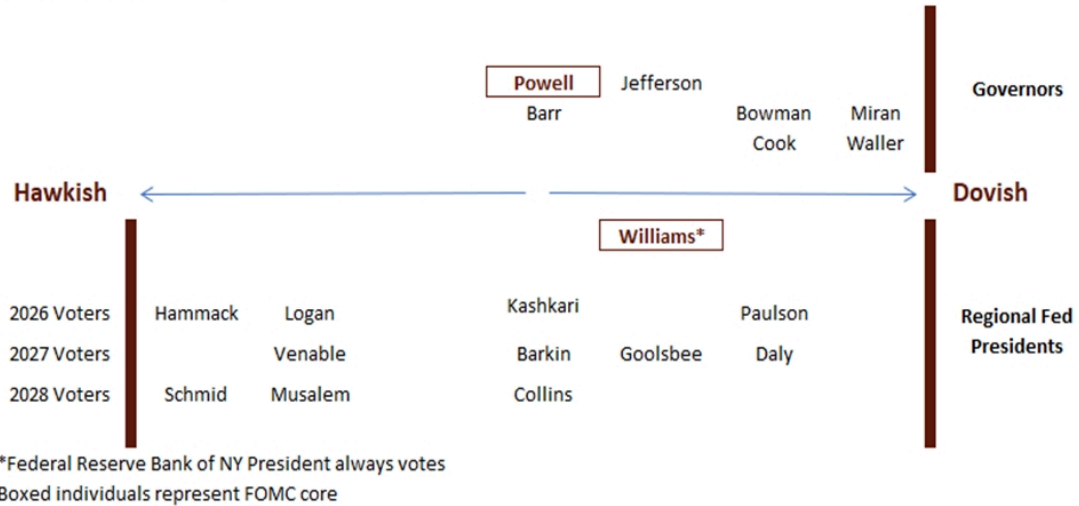
Private residential construction spending climbed 0.8 percent over the month though this represents a rebound following a steep decline in January-February. Single-family private residential construction rose 1.4 percent over the month; however, I'm skeptical this lasts. New 1-family homes sold, but not started have declined over the last year. Construction spending typically follows.

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Monetary metrics

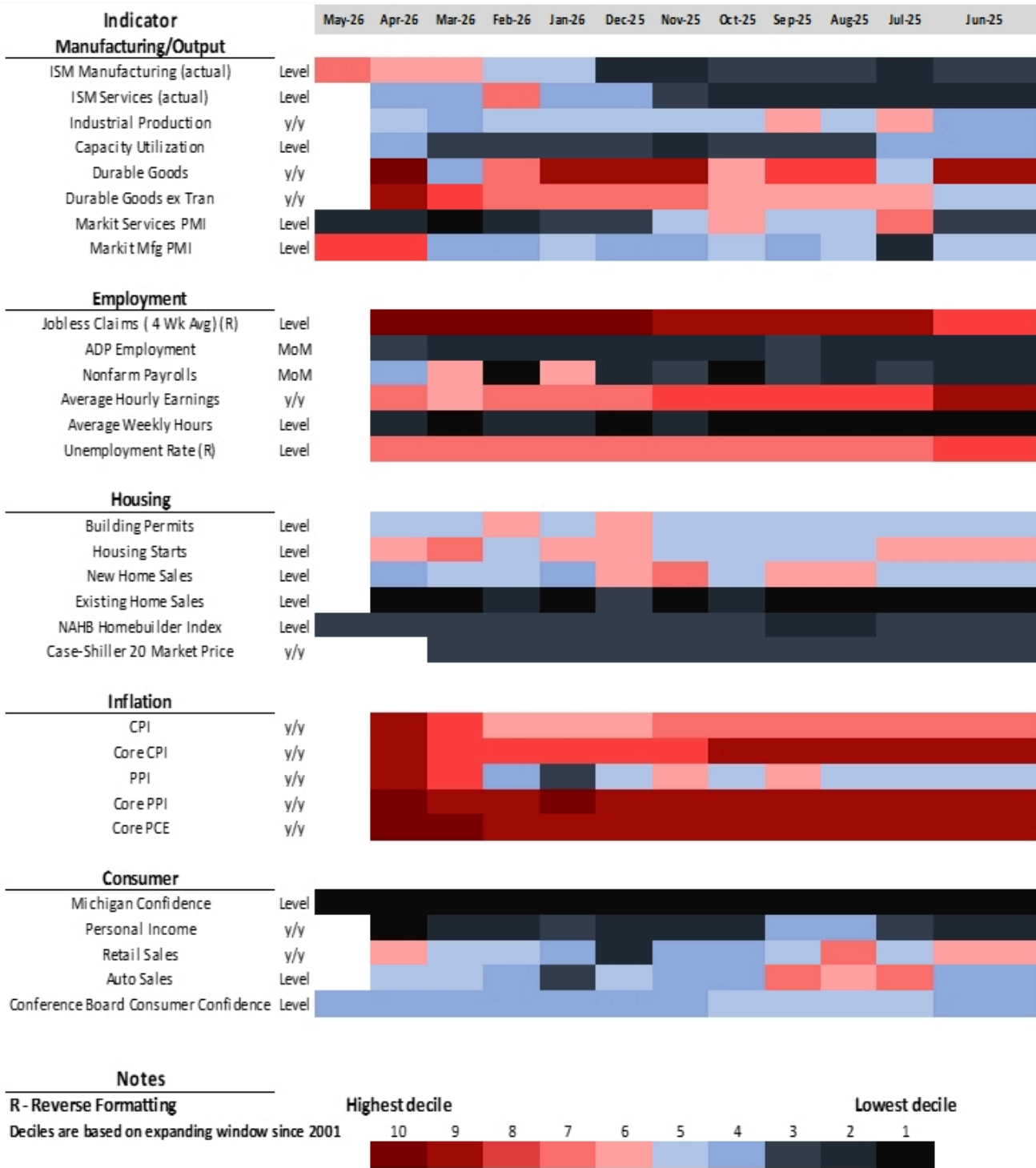


Hawks and Doves



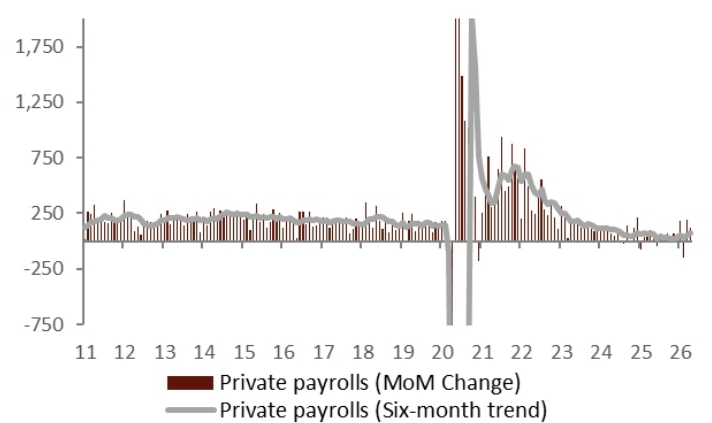
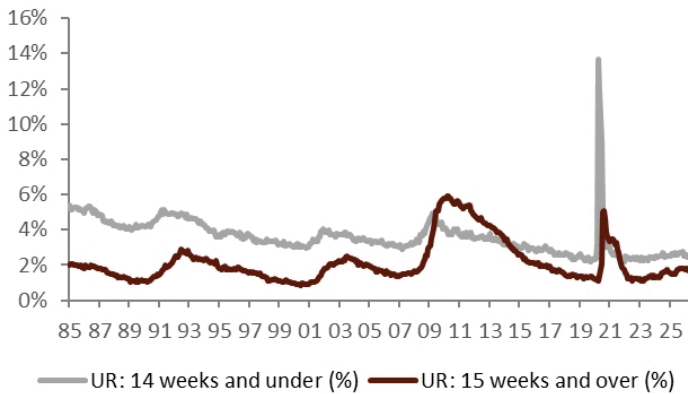
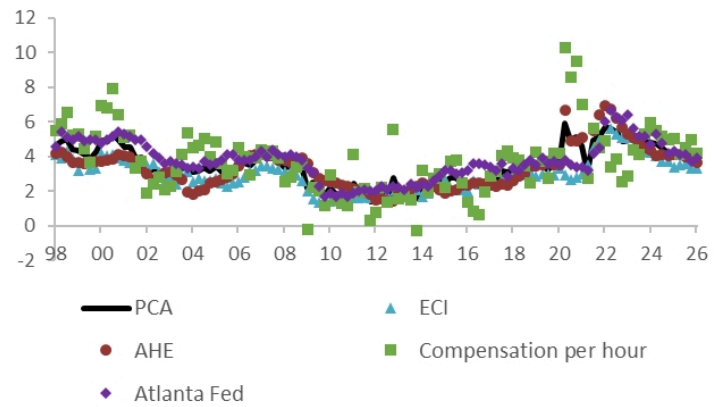
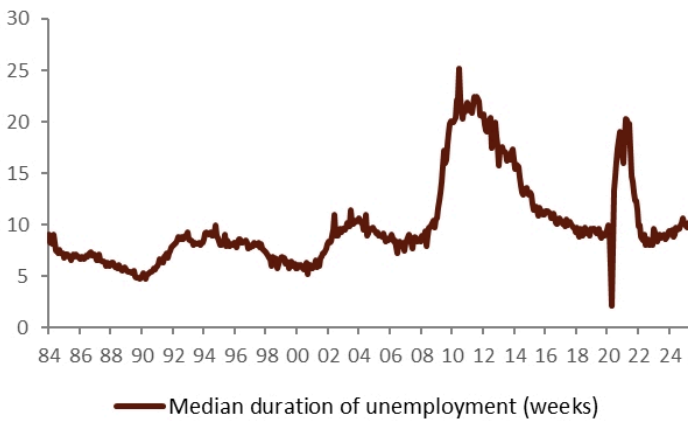
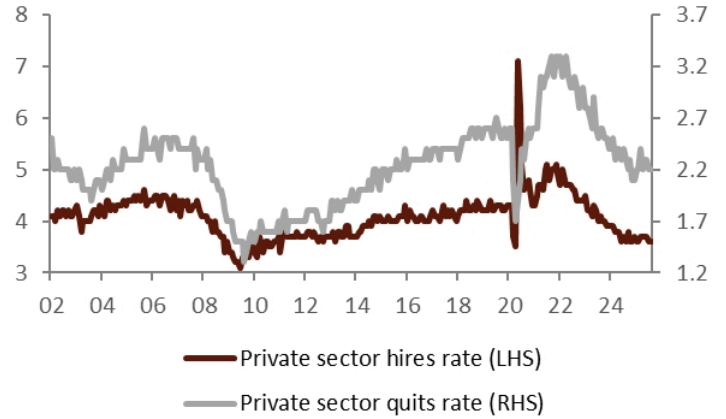
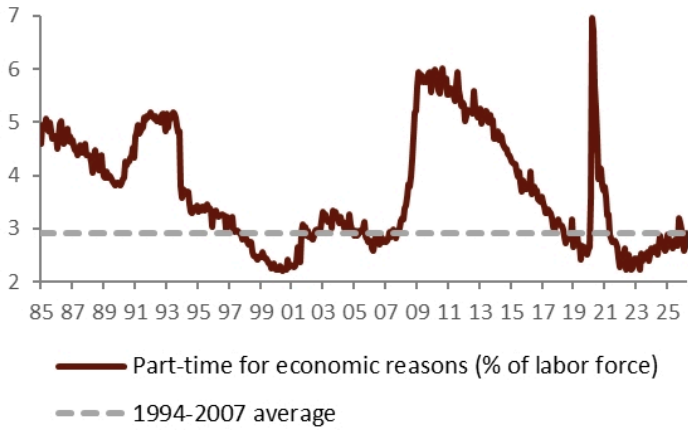
FOMC Forecasts	Median				Central Tendency			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.4	2.3	2.1	2.0	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0
December projection	2.3	2.0	1.9	1.8	2.1–2.5	1.9–2.3	1.8–2.1	1.8–2.0
Unemployment rate	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3
December projection	4.4	4.2	4.2	4.2	4.3–4.4	4.2–4.3	4.0–4.3	4.0–4.3
PCE inflation	2.7	2.2	2.0	2.0	2.6–3.1	2.0–2.3	2.0	2.0
December projection	2.4	2.1	2.0	2.0	2.3–2.5	2.0–2.2	2.0	2.0
Core PCE inflation	2.7	2.2	2.0		2.5–2.8	2.0–2.4	2.0	
December projection	2.5	2.1	2.0		2.4–2.6	2.0–2.2	2.0	
Projected policy path								
Fed funds rate	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5
December projection	3.4	3.1	3.1	3.0	2.9–3.6	2.9–3.6	2.8–3.6	2.8–3.5

High frequency data heat-map



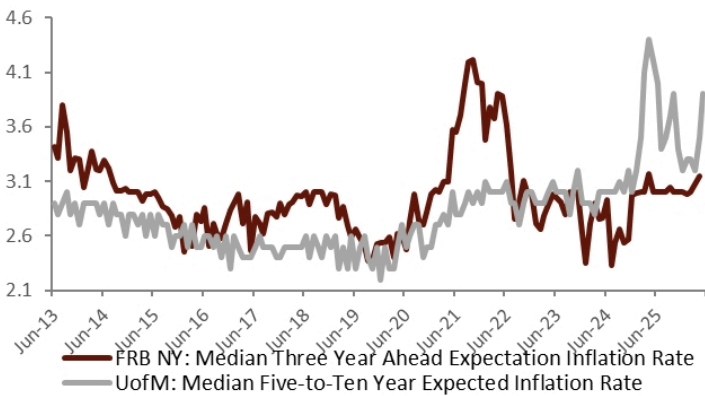
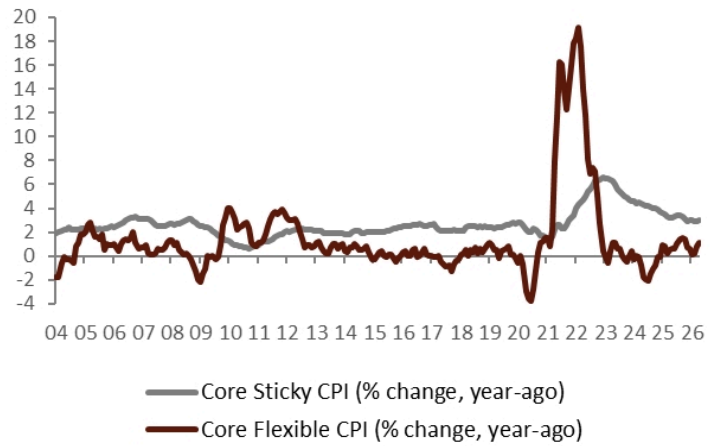
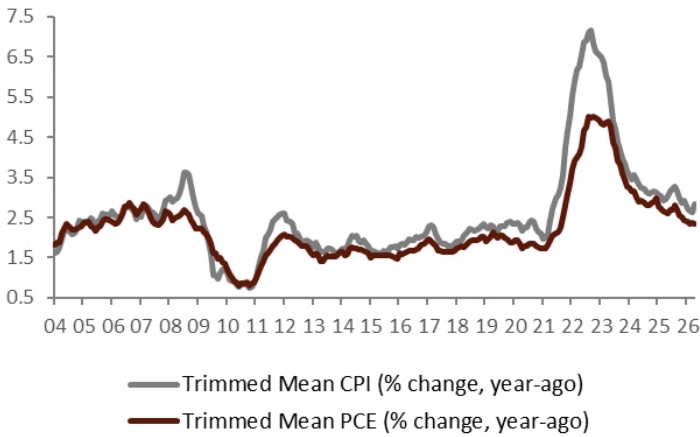
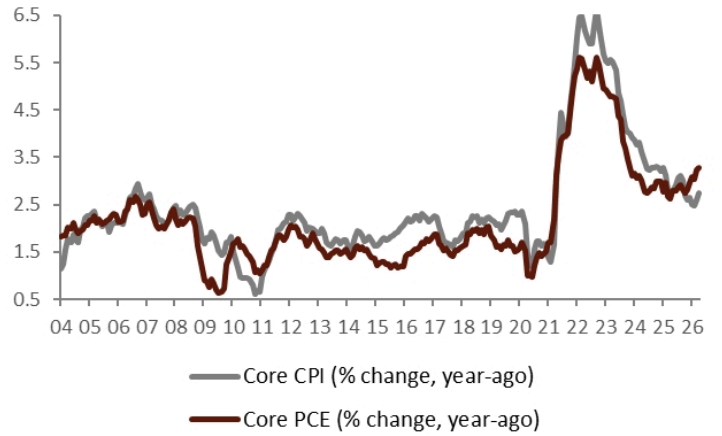
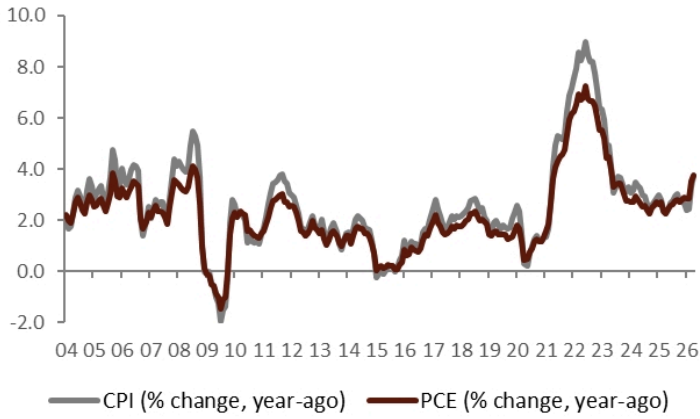
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Labor market indicators



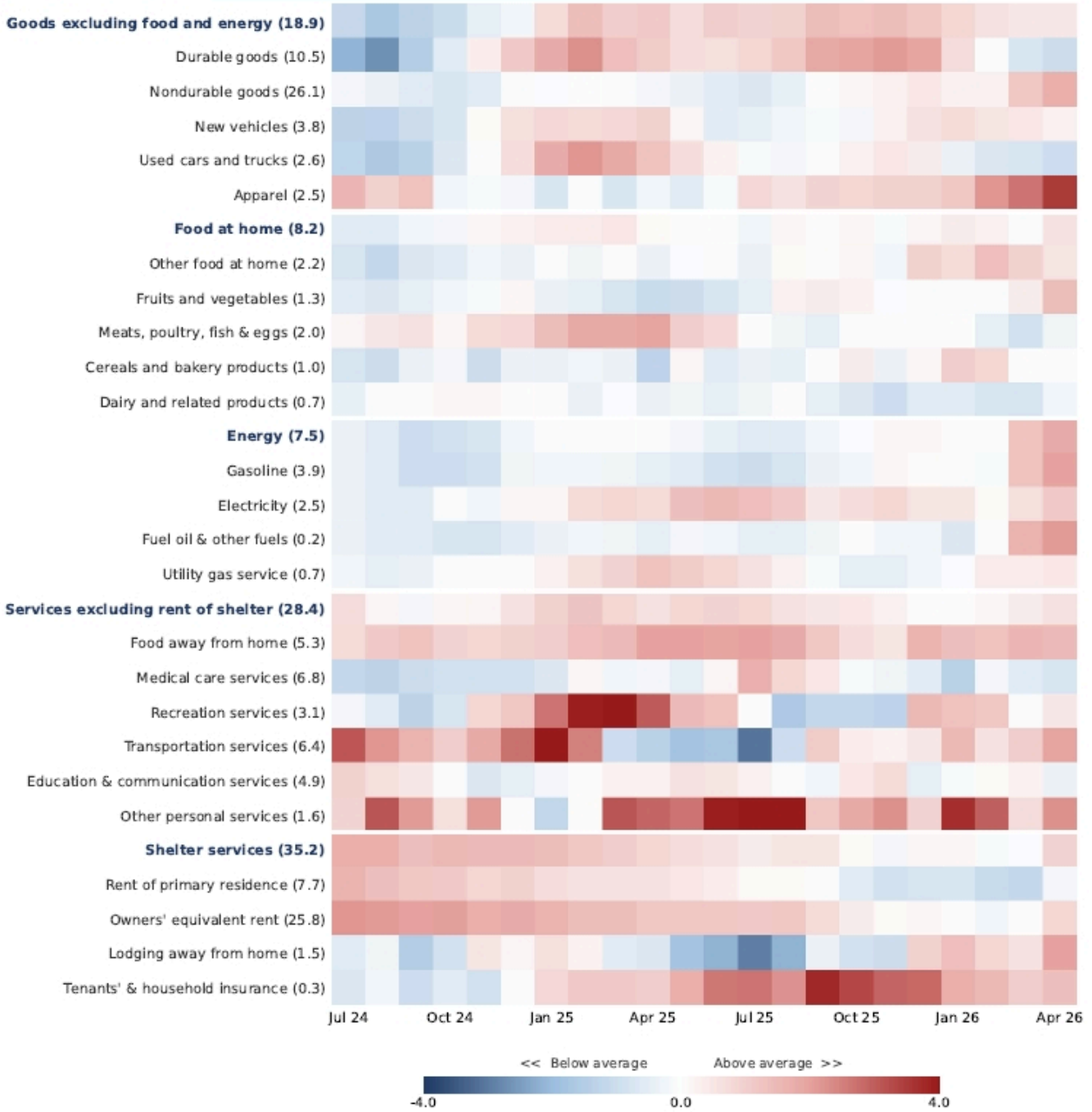
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Inflation indicators



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US Inflation Heatmap (6-Month Annualized)

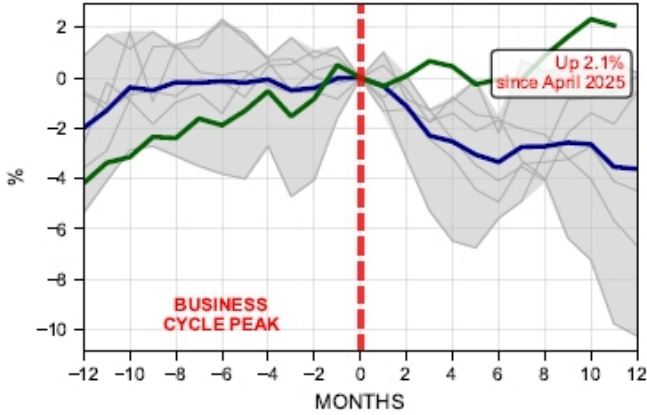


Note: The heatmap shows the distance of each US CPI component's 6-month annualized inflation rate from its historical average. The colour is white when a component's inflation rate is close to its average and is a varying shade of blue (red) when the rate is below (above) the average. Each inflation rate is standardized by subtracting its mean and dividing by its standard deviation, computed over 1996-2019. and We show full Nondurables (which includes food and energy components) alongside Durables, New vehicles, Used cars and trucks, and Apparel; the parent group itself excludes food and energy. Food away from home, Other personal services, and Tenants' & household insurance are published NSA by BLS and seasonally adjusted via X-13ARIMA-SEATS. Values in parentheses are CPI relative importance weights (parts per 100). Sources: BLS via Haver Analytics; RenMac calculations. Last observation: April 2026.

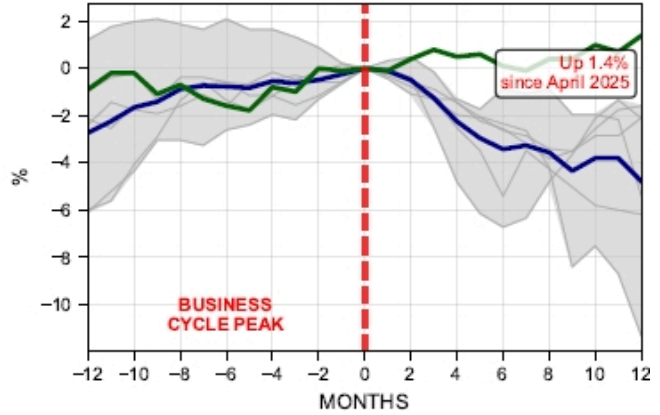
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NBER RECESSION INDICATORS DASHBOARD

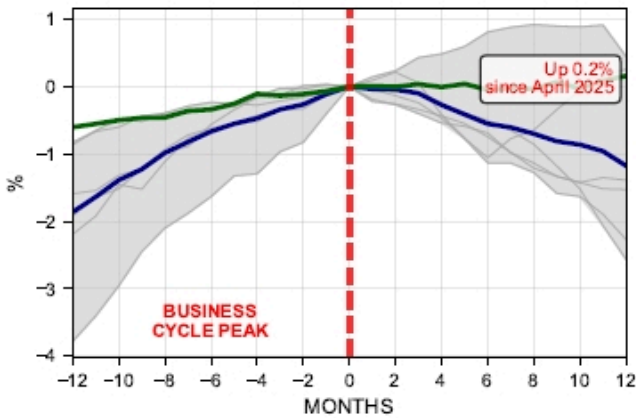
REAL SALES: MANUFACTURING AND TRADE INDUSTRIES



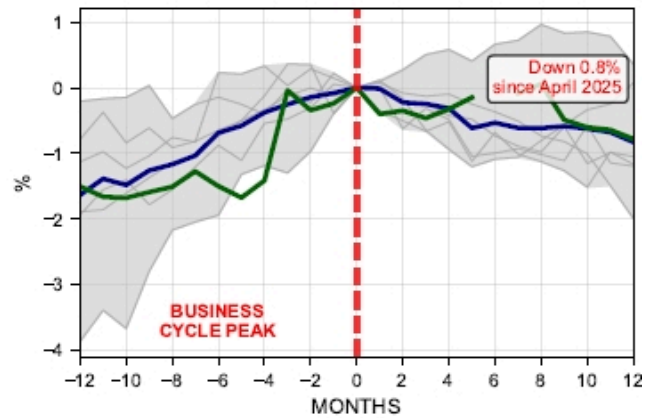
INDUSTRIAL PRODUCTION



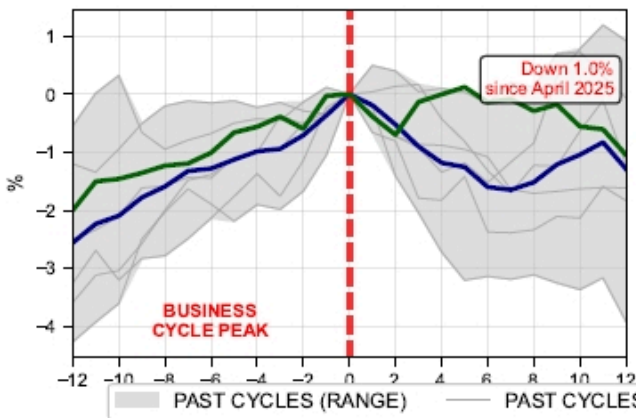
US NONFARM PAYROLLS



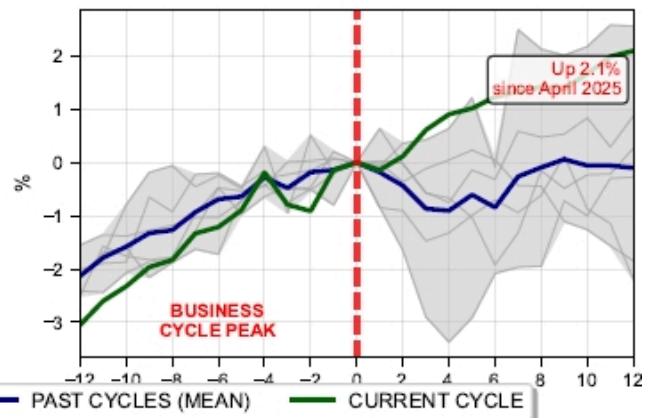
CIVILIAN EMPLOYMENT



REAL PERSONAL INCOME MINUS CURRENT TRANSFER RECEIPTS



REAL PCE

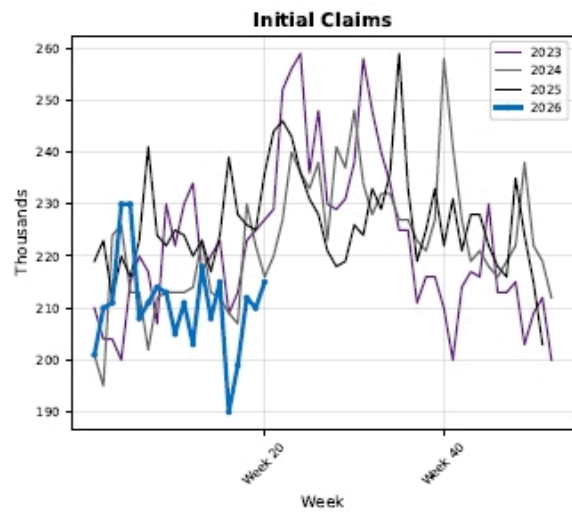
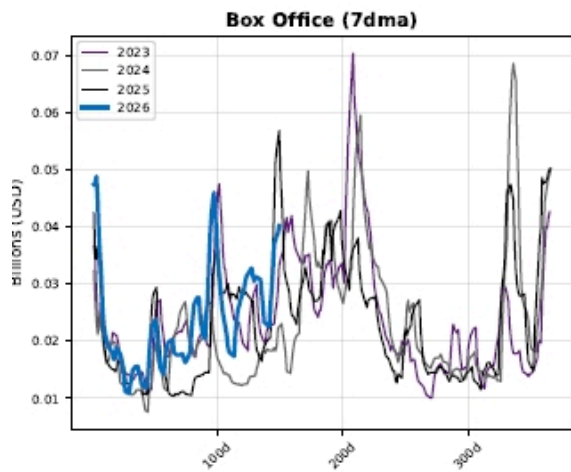
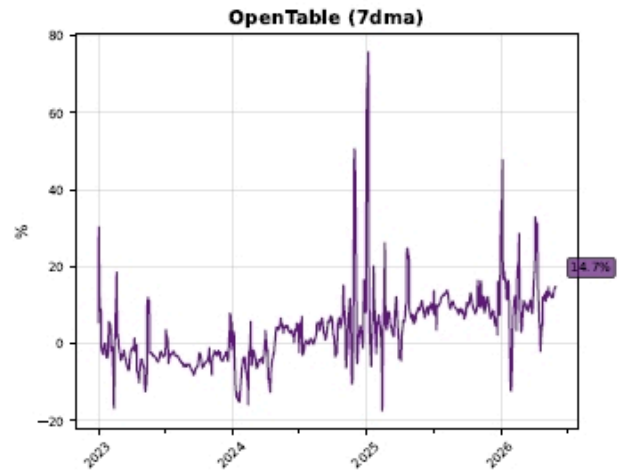
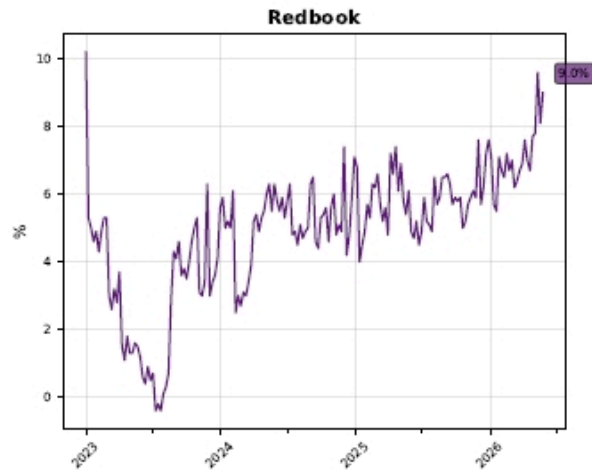
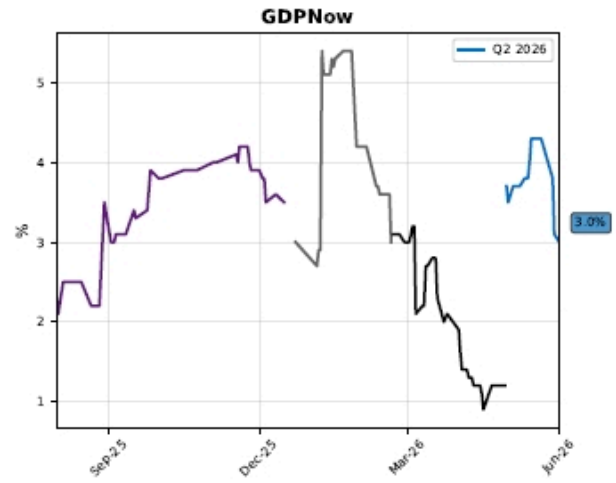
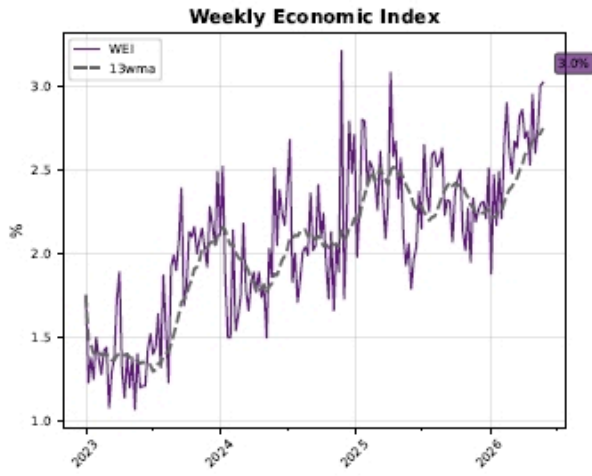


PAST CYCLES (RANGE)
 PAST CYCLES
 PAST CYCLES (MEAN)
 CURRENT CYCLE

Past 7 cycles excluding Covid-19 period

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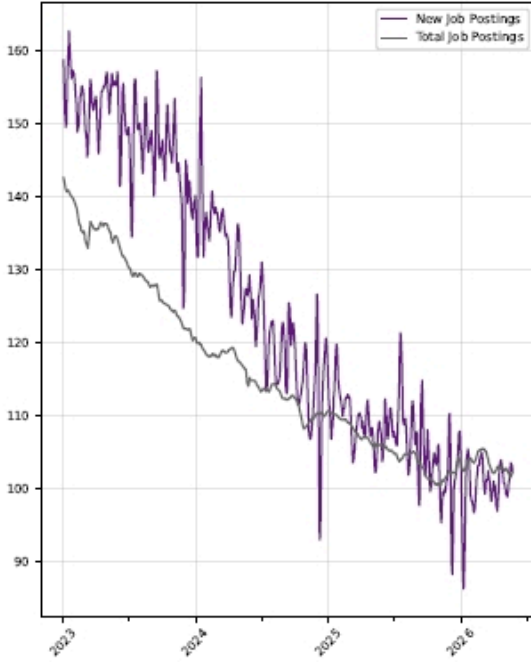
High Frequency Economic Dashboard



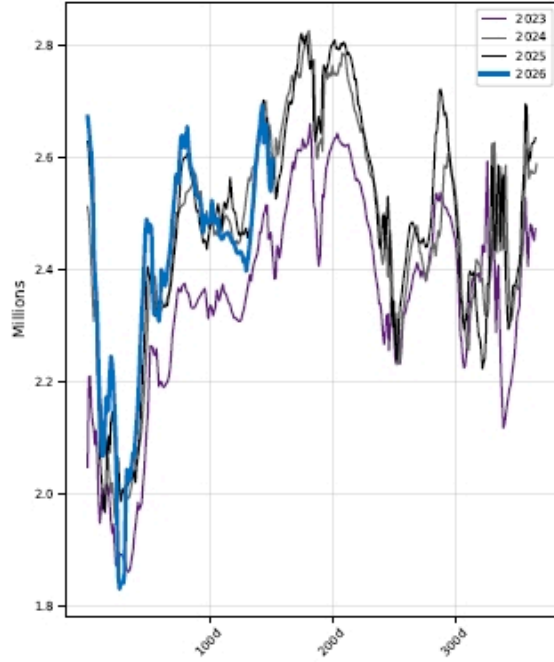
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High Frequency Economic Dashboard

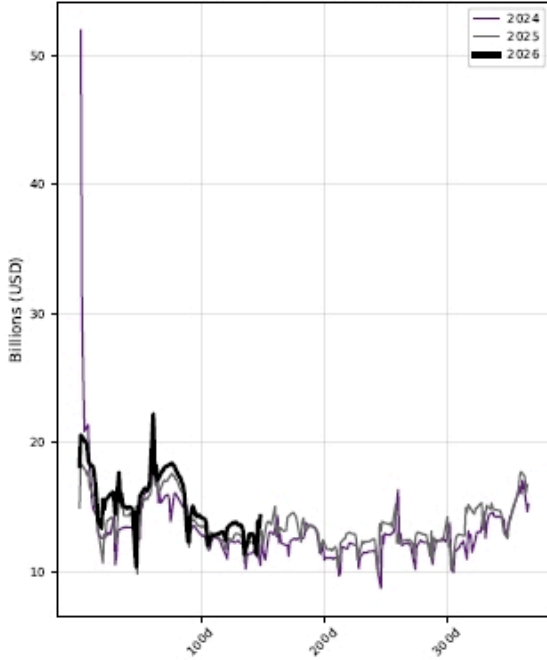
Indeed Job Postings



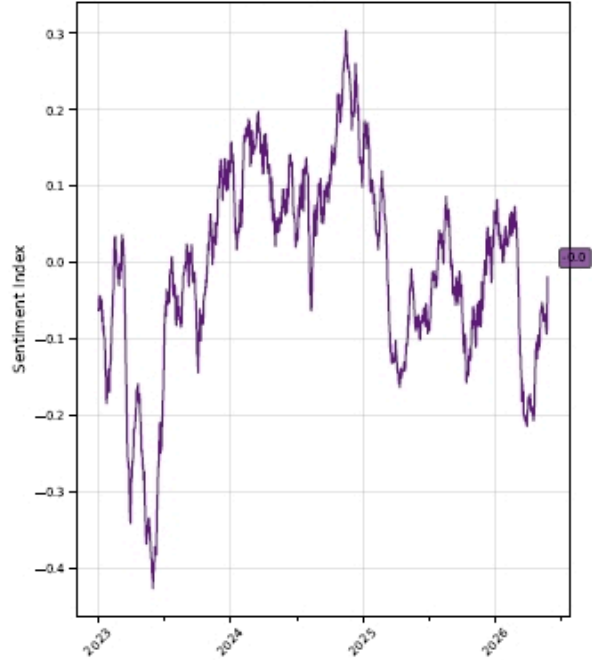
Air Travel



Withheld Income Taxes (10dma)



Daily News Sentiment



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