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March Personal Income and Consumption

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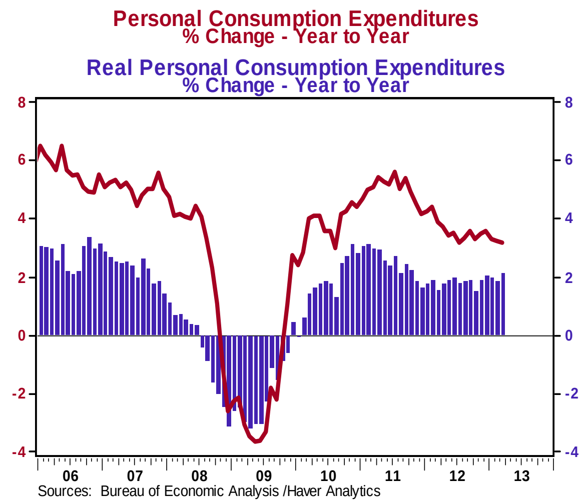
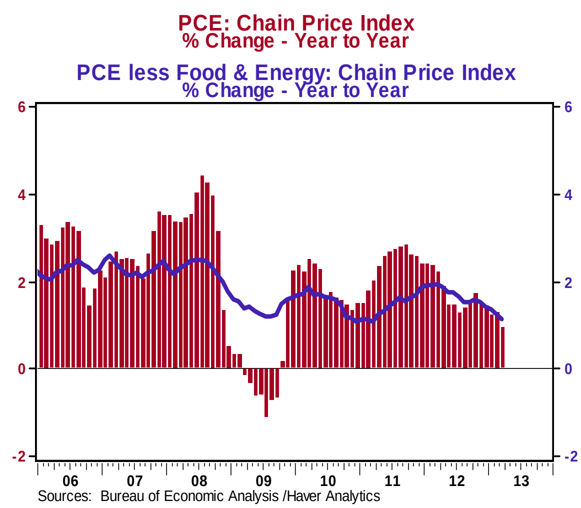
- Personal income increased 0.2% in March (0.3% including revisions to prior months), coming in below the consensus expected gain of 0.4%. Personal consumption rose 0.2% (0.1% including revisions to prior months), beating the consensus expected 0.0%. In the past year, personal income is up 2.5% while spending is up 3.2%.
- Disposable personal income (income after taxes) increased 0.2% in March and is up 2.0% from a year ago. The rise in income was primarily driven by private-sector wages & salaries as well as rent.
- The overall PCE deflator (consumer prices) declined 0.1% in March, but is up 1.0% versus a year ago. The "core" PCE deflator, which excludes food and energy, was unchanged in March but is also up 1.1% in the past year.
- After adjusting for inflation, "real" consumption increased 0.3% in March (0.2% with revisions to prior months) and is up 2.2% from a year ago.





Implications: So much for the theory that the payroll tax hike or sequester will hurt consumer spending. Despite the fears, consumer spending beat consensus expectations in March, rising 0.2%. Moreover, the trend in personal spending has been accelerating. In the past three months, consumer spending is up at a 4.7% annual rate, compared to a 3.2% gain the past year. Meanwhile, real (inflation-adjusted) consumer spending is up at a 3.4% annual rate in the past three months, compared to 2.2% gain versus a year ago. True, an unusually cold March bumped up electricity consumption. However, an early Easter suppressed other purchases, just like in 2002, 2005 and 2008. Some may be concerned that growth in consumer spending is now outstripping growth in personal income. But the growth in income does not reflect realized capital gains, which are now flowing again. Nor does personal income reflect withdrawals from 401Ks and IRAs, where asset balances are growing. In addition, consumers have reduced the financial obligations ratio to the lowest share of income since 1981, leaving more room to spend. (The obligations ratio is the share of after-tax income needed to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve's favorite measure of inflation, personal consumption prices, was down 0.1% in March and is up only 1% from a year ago. Core prices, which exclude food and energy, were unchanged in March and are up only 1.1% from a year ago. Both are clearly below the Fed's 2% target. However, we believe these price measures have just bottomed and will be noticeably higher by year end, probably above the Fed's 2% target. In other news this morning, pending home sales, which are contracts on existing homes, increased 1.5% in March, suggesting further gains in closings on existing homes in April.

Personal Income and Spending *All Data Seasonally Adjusted*	Mar-13	Feb-13	Jan-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.2%**	1.1%	-3.6%	-9.0%	2.8%	2.5%
Disposable (After-Tax) Income	**0.2%**	1.1%	-4.0%	-10.5%	1.9%	2.0%
Personal Consumption Expenditures (PCE)	**0.2%**	0.7%	0.3%	4.7%	3.3%	3.2%
Durables	**-0.2%**	0.2%	0.1%	0.2%	5.3%	5.4%
Nondurable Goods	**-1.1%**	1.6%	-0.2%	1.0%	-1.9%	0.5%
Services	**0.7%**	0.5%	0.4%	6.9%	4.8%	3.8%
PCE Prices	**-0.1%**	0.4%	0.1%	1.3%	0.7%	1.0%
"Core" PCE Prices (Ex Food and Energy)	**0.0%**	0.1%	0.2%	1.1%	1.1%	1.1%
Real PCE	**0.3%**	0.3%	0.2%	3.4%	2.6%	2.2%

Source: Bureau of Economic Analysis