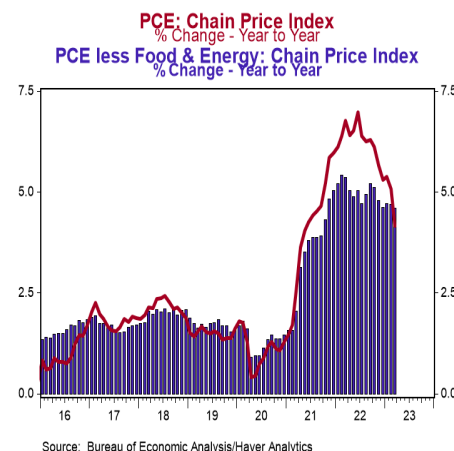
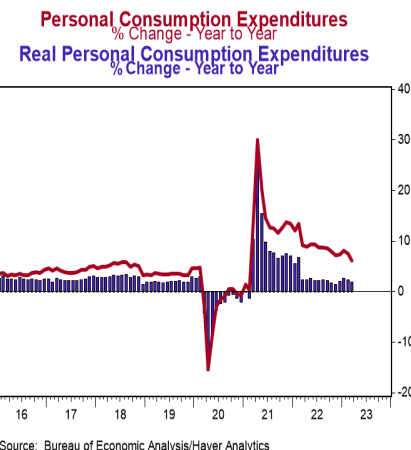


## March Personal Income and Consumption

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- Personal income rose 0.3% in March, beating the consensus expected +0.2%. Personal consumption was unchanged in March (-0.1% including revisions to prior months), versus a consensus expected -0.1%. Personal income is up 6.0% in the past year, while spending has increased 6.2%.
- Disposable personal income (income after taxes) increased 0.4% in March and is up 8.3% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.1% in March and is up 4.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.3% in March and is up 4.6% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in March (-0.3% including revisions) but is up 1.9% from a year ago.



**Implications:** Income rose but spending paused in March as consumers continue to navigate elevated inflation and an uncertain path ahead. The best news in today’s report was that incomes rose 0.3% as private-sector wages & salaries led the way, and wage gains outstripped the pace of inflation for the eighth time in the last nine months. That means consumers are seeing gains in real (inflation-adjusted) spending power. However, consumers tempered spending in March, with a rise in outlays on services fully offset by a decline in spending on goods. This transition from goods toward services has been an ongoing theme in the past year, with growth in services spending outpacing goods in nine of the past twelve months. Given the surge in goods activity during COVID as many services were shut down, we expect goods spending will struggle to keep pace as the economy continues to shift back towards a more “normal” mix of activity. On the inflation front, PCE prices – the Federal Reserve’s preferred measure of prices – rose 0.1% in March and are up 4.2% in the past year. That’s a welcome downshift from the 7.0% peak last June, but this shouldn’t make the Fed sanguine on inflation. “Core” prices, which exclude food and energy are up 4.6% from a year ago and down less than a percentage point from the 5.4% peak in core prices last February. In other words, this has been a slow slog lower, and the Fed still has work to do. While goods prices have been moderating (up 1.6% from a year ago versus 10.6% back in June of last year), service inflation remains stubbornly high and has shown little sign of easing (up 5.5% from a year ago versus 5.1% back in June). Note that the Fed is now closely watching a subset of inflation dubbed the “SuperCore,” which is services only (no goods), excluding food, energy, and housing. That measure rose 0.2% in March and is up 4.4% versus a year ago. Inflation continues to take a toll on the economy, which is also feeling more of the effect of the slowdown in the money supply over the past year. The economy was still growing in March, but we think tougher times are ahead. In recent news on the housing front, pending home sales, which are contracts on existing homes, fell 5.2% in March after a 0.8% gain in February, suggesting that closings on existing homes will decline in April. On the manufacturing front, the Kansas City Fed index, a measure of factory activity in that area, fell to -10 in April from 0 in March, signaling contraction.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-23	Feb-23	Jan-23	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.3%</b>	0.3%	0.6%	4.9%	5.8%	6.0%
<b>Disposable (After-Tax) Income</b>	<b>0.4%</b>	0.5%	2.1%	12.2%	10.4%	8.3%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.0%</b>	0.1%	2.0%	8.6%	5.1%	6.2%
<b>Durables</b>	<b>-0.9%</b>	-1.5%	7.3%	20.7%	3.4%	3.3%
<b>Nondurable Goods</b>	<b>-0.4%</b>	0.6%	1.3%	5.8%	1.3%	2.2%
<b>Services</b>	<b>0.4%</b>	0.2%	1.2%	7.3%	6.7%	8.0%
<b>PCE Prices</b>	<b>0.1%</b>	0.3%	0.6%	4.0%	3.6%	4.2%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.3%</b>	0.3%	0.6%	4.9%	4.3%	4.6%
<b>Real PCE</b>	<b>0.0%</b>	-0.2%	1.4%	4.4%	1.5%	1.9%

Source: Bureau of Economic Analysis