U.S. Flash

Personal Income and Spending Grow, Picture Still Unclear

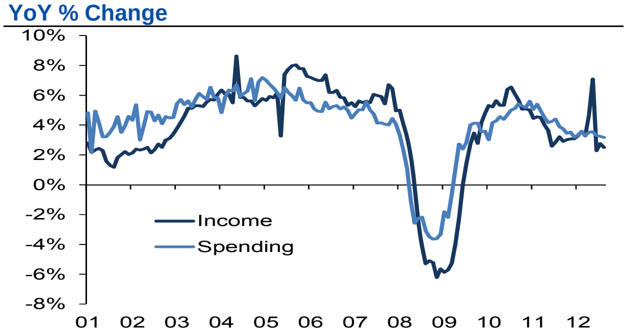
- **Personal income rose 0.2% following a sharp 1.1% jump in February**
- **Consumer spending was slightly higher than expected, up 0.2% on services growth**
- **Core PCE inflation remained flat in March and decelerated to 1.1% on a YoY basis**

Both income and spending rose in March after a couple of capricious months of data impacted by the payroll tax rise that hit January 1st. Personal income increased slightly less than expected, up 0.2% after a 1.1% rise in February to correct for the volatile changes in December and January. Wage and salary growth was soft for March, up only 0.2% after jumping 0.7% in February. The service industry saw the highest gain in wage growth, rising 0.3% as wages in goods-producing industries remained flat for the month. Given the budget cuts that have permeated the federal government, it is not surprising that government wage growth was also flat for March and is not expected to grow much in the coming months as the sequestration effects unfold. On a YoY basis, wage and salary growth dropped to its slowest rate since June 2010. Although the first quarter has proved relatively hard to read for the consumer's income, we expect the effects of the payroll tax increase to subside over the coming months as economic conditions improve and the employment situation recovers.

Consumer spending was more positive than expected, up 0.2% but still the slowest pace since December. Although consumption was slower than in February, it comes on the back of a relatively weak employment report and retail sales figure for March. This growth does resemble the quarter's dichotomy in terms of where disposable income was spent with regard to the decline in goods purchase and rise in services spending. Personal expenditures on goods declined as spending on non-durable goods dropped significantly, down 1.1% for the largest drop since May of last year. This disconcerting decline in goods purchases was on par with what we saw in the 1Q13 GDP figure and in retail sales data as well. Services expenditures, however, grew 0.7% in March reaching its highest monthly growth rate since August 2007. On the rise since the beginning of the quarter, the service industry has been the driving force behind most consumption as both durable and non-durable good growth has been slow or declining since the payroll tax increase. In general, the data is supportive of the strong consumption figure we saw in the first GDP estimate for 1Q13, with real PCE up 0.3%, and we do not expect that it will have much impact on the upcoming revised estimates.

As far as inflation is concerned, there was a slight decline in the headline figure by 0.1% while the core PCE price index remained flat. On a YoY basis that puts the headline PCE index at 1.0% and the core figure at 1.1%. Although this is well within the range for the Fed's policy target of 2.5%, the inflation rate is lower than expected given the quantitative easing that has taken place and may warrant some discussion at the upcoming FOMC meeting beginning tomorrow.

Chart 1
Real Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

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