Data Release: Consumer spending starts Q2 on the back foot

- Personal income rose by 0.4% m/m in April, slightly above market expectations for 0.3%, while the March reading was left unchanged at 0.0%. Removing taxes and adjusting for inflation, real personal disposable income grew by 0.3%.
- Personal spending remained flat in nominal terms, below the consensus forecast of 0.2%. Revisions to the month prior were positive though, with March’s reading being revised up to 0.5% (previously reported at 0.4%). After controlling for inflation, spending fell by 0.1% in April, following a gain of 0.4% in March.
- In terms of the component breakdown, real spending fell across both durables (-0.8% m/m) and non-durables (-0.1% m/m), while spending on services (0.1% m/m) edged a touch higher.
- The savings rate rose by 0.4 percentage points in April to 5.6%, from a downwardly revised reading of 5.2% (previously 5.3%) in March.
- The personal consumption expenditures price index also remained flat on the month, below expectations of a gain of 0.1%. On a year-over-year basis, price growth decelerated to 0.1%. After removing food and energy, the core PCE price index edged higher by 0.1% m/m, but fell to 1.2% on a year-over-year basis.

Key Implications

- A disappointing start to what will be a busy week on the economic data calendar. The miss on consumption is particularly disconcerting as it puts spending activity on the back foot to start the second quarter and suggests that there may be other factors beyond poor weather weighing on consumption.
- The softer than expected reading on consumer spending implies weaker real GDP growth for the second quarter, with our current tracking for 1.5%-2.0% (annualized).
- Perhaps one silver lining in an otherwise weak report was the bounce back in personal income. The gains in income are due mainly to an increase in wages and salaries, reflecting the stronger labor market performance seen over the past month. Continued gains in household income will be a key factor in underpinning the pick-up in consumption activity over the remainder of year.

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