May 31, 2016

TD Economics

Data Release: Consumers spending surges in April

- Personal income increased by 0.4% (m/m) in April, on par with consensus. Growth in disposable personal income (after accounting for taxes) was even stronger at 0.5% during the month.
- Personal spending advanced 1.0% (m/m) during April, well ahead of the 0.7% expected by economists. Taking just a bit of luster off this number is the slight downward revision to March spending, which was revised to flat from a 0.1% m/m gain previously. Real spending also advanced by a very healthy consensus-beating 0.6%, with broad based strength across durables (+2.2% m/m), nondurables (0.7% m/m) and services (0.4% m/m).
- The personal consumption expenditure (PCE) price deflator increased by 0.3% (m/m) last month while the core PCE deflator was up a still robust 0.2%.
- The savings rate fell by half a point to 5.4%.

Key Implications

- This is exactly what we've been waiting for folks. This report is yet another important confirmation that the U.S. economy remains on a solid footing, and that the weakness experienced earlier in the year appears at least partly transitory. In nominal terms, the April spending surge marked the biggest gain since August 2009. Better yet, even after adjusting for inflation, monthly spending was up at the fastest pace in more than two years. This suggests that strong job gains, accumulated savings at the pump, and signs of wage gains are giving the American consumer both the confidence and the means to spend.
- Importantly, personal income growth continued this month at a robust pace. We expect that future job gains will increasingly materialize in more robust wage hikes for American workers and alongside gasoline prices that should rebound only modestly, should support consumer spending, and the U.S. economy, going forward. After this morning's report, second quarter GDP is tracking a very healthy 2.9% annualized – a significant improvement over the previous two quarters.
- Thus far, inflation is still not a burning concern for the FOMC. However, as these favorable spending and wage dynamics continue to develop, and transitory factors that previously weighed on prices dissipate, inflationary pressures are likely to begin to appear. Given the fact that monetary policy acts with a significant lag, and that it may be easier the economy to deal with earlier-but-slower pace of rate hikes, we expect that the Fed will almost definitely make a move this summer. While June still remains far from a done deal, given the potential for financial market volatility related to Brexit, we fully expect that a July hike is becoming increasingly likely.

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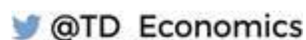

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