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TD Economics

Data Release: Solid spending in April, confirms Q2 rebound is on track

- Personal income and spending both rose 0.4% in April, in line with the consensus forecasts.
- Personal spending rose 0.2% in real terms, led by a 1.1% increase in durable goods. Services spending was largely flat in real terms, after a sizeable rebound in March (+0.6%).
- Consumer prices rose 0.2% in April, bringing the year-on-year inflation rate to 1.7% (from 1.8% in March). Core prices (excluding food & energy) also rose 0.2% month-on-month – bringing year-on-year price growth to 1.5% (from 1.6% previously).
- The personal saving rate was steady in April at 5.3%.

Key Implications

- The second quarter rebound in consumer spending is right on track. Solid spending in April, combined with upward revisions to March data put spending on track to grow slightly above a 3% annualized pace. The good news is that personal spending gained momentum through the soft first quarter. The jump up in spending on durable goods is particularly encouraging that despite Q1 weakness, consumers remain confident to purchase big ticket items.
- Another bright spot in the report was the continued gains in real income growth. After decelerating sharply at the end of 2016, real personal income grew at a 3.8% annualized pace over the past three months. That combined with solid job growth should underpin healthy consumer spending through the remainder of the year.
- The weakness in core inflation in recent months may provide some fodder for the doves on the FOMC to delay further rate hikes until inflation pressures become clearer. Given the strength in the labor market, and the number of one-time factors that have put downward pressure on inflation recently, we think the Fed will be inclined to look past the recent softness and hike rates a quarter point in June.

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