TD Economics

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Data Release: Inflation softens in March, but spending volumes rebound

- Personal income rose 0.2% in March, below the median consensus forecast of 0.3%. Still, it was a good month for real income growth – controlling for inflation and removing taxes, real disposable personal income was up a robust 0.5%.

- Personal spending was flat in nominal terms, below the consensus call for a 0.2% gain. In real terms, spending rose 0.3%, led by services, which rebounded 0.4% (after two months of declines). Goods consumption fell slightly (-0.1%) as gains in non-durable goods (+0.3%) were offset by declining spending on durables (-0.7%).
- Consumer prices fell 0.2% in March, bringing the year-on-year inflation rate to 1.8% (from 2.1% in February). Core prices (excluding food & energy) fell 0.1% month-on-month – bringing year-on-year price growth to 1.6% (from 1.8% previously).

- The personal saving rate rose to 5.9% in March from 5.7% in February.

Key Implications

- The good news is that personal spending gained momentum through the soft first quarter. Still, there is little here to get excited about. The strong growth in services spending reflects a normalization in utilities consumption after two months of warm weather-induced weakness. Meanwhile, the pullback in durable spending (already telegraphed in falling auto sales) provides a high hurdle for spending growth in April and May in order to assuage fears that the slowdown is more than a first quarter blip. The saving grace is the strong gain in real incomes. As long as job growth holds up and inflation remains modest, real income growth should provide the impetus for spending growth to accelerate in the months ahead.

- The weakness in inflation, especially in the core measure, has to induce some caution as far as the Federal Reserve deliberations this week. The momentum of the past few months was completely unwound in March. This is more than enough for the Fed to pause at its meeting later this week. Should it continue, it may also jeopardize plans for any additional rate hikes later in the year.

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