ECONOMIC UPDATE

REGIONS

May 30, 2017

April Personal Income/Spending: Solid April Data Mask Some Unkind Revisions

- Personal income rose by 0.4 percent in April; personal spending rose by 0.4 percent, and the savings rate held at 5.3 percent.
- The PCE deflator rose by 0.2 percent and the core PCE deflator was up by 0.2 percent in April. On a year-over-year basis, the PCE deflator was up by 1.7 percent and the core deflator was up by 1.5 percent.

Total personal income rose by 0.4 percent in April, as did total personal spending, each matching our forecast. Total personal income is up 3.6 percent year-on-year, while total personal spending is up 4.3 percent. With spending growth matching income growth, the personal saving rate held steady at 5.3 percent in April. The PCE deflator, the FOMC's preferred gauge of inflation, rose by 0.2 percent in April after having fallen by 0.2 percent in March, and the core PCE deflator rose by 0.2 percent. Real consumer spending was up 0.2 percent in April.

Growth in total personal income was driven by solid growth in wage and salary earnings, which were up 0.7 percent in April, with private sector earnings up 0.8 percent and government sector earnings up 0.2 percent. The hefty increase in private sector wage and salary earnings is the product of the increase in the number of people working (private sector payrolls were up by 194,000 jobs) and the one-tenth of an hour increase in the average workweek. As we routinely note, seemingly small changes in the length of the workweek have a powerful impact on growth in aggregate earnings, as is evident in the April data. Still, April's increase comes on the heels of a modest decline in private sector earnings in March, and private sector earnings were up just 3.7 percent in April, easily below the trend rate of growth.

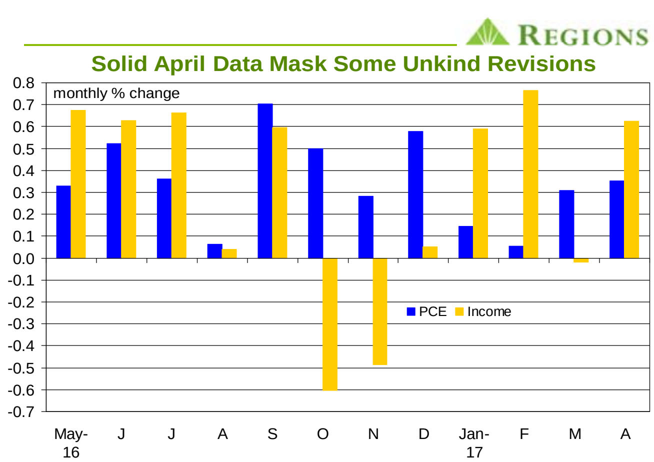
Top-line income growth was also supported by a 0.9 percent increase in rental income, leaving it up 6.9 percent year-on-year. Investment income, however, turned in a listless performance in April, dropping by 0.1 percent as interest income was down by 0.4 percent, ending a string of solid increases over the prior six months and offsetting a 0.3 percent increase in dividend income. This is the largest increase in dividend income since last October and leaves it up just 0.7 percent year-on-year, continuing what has been a notably weak trend over the past two years.

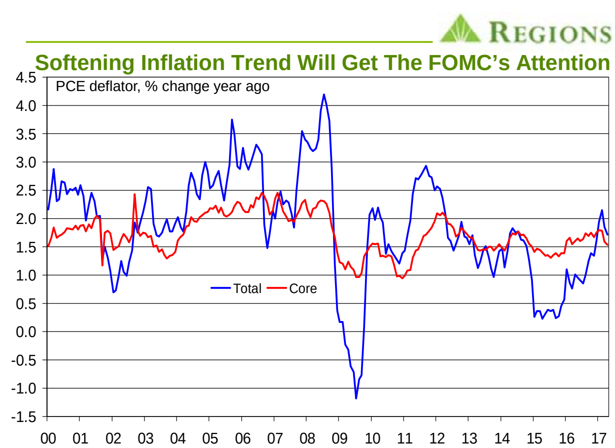
On the spending side, spending on consumer durable goods was up 0.9 percent in April, with spending on nondurable consumer goods up 0.6 percent. Spending on services was up 0.3 percent, with utilities outlays falling sharply and spending on health care up 0.2 percent. Coming months are unlikely to see growth in spending on consumer durables as strong as was the case in April with motor vehicle sales settling into a slower pace, though continued growth in spending on household furnishings and appliances will pick up some of the slack.

While the April numbers on income and spending will get the bulk of attention, there is a big story lurking in the details of today's report. As was incorporated into the second estimate of Q1 GDP released last week, prior estimates of growth in personal income in Q4 2016 were marked down sharply. This is a function of significant downward revisions to private sector wage and salary earnings. As is standard practice, these estimates were benchmarked to the latest Quarterly Census of Employment and Wages, which shows aggregate labor earnings were much weaker than the BEA had assumed in their estimates of personal income, and this suggests the payroll employment growth may have been weaker in Q4 than has been estimated. Given that private sector wage and salary earnings are the largest single component of total personal income, this means growth in total personal income entered 2017 on a weaker trajectory than had been assumed.

Another story line in today's report worth noting is the softer trend in PCE inflation. Both the total and core PCE deflators were up 0.2 percent in April, but on an over-the-year basis the total PCE was up 1.7 percent, down from 2.1 percent in February and 1.9 percent in March. At 1.5 percent, core PCE inflation has slowed from 1.8 percent in February and 1.6 percent in March. It is too soon to know whether this deceleration will last, but these numbers will no doubt get the attention of the FOMC. We do not think the April data will keep the FOMC from raising the Fed funds rate at their June meeting but if the inflation numbers do not firm up that could scuttle plans for further rate hikes.

Beneath the solid April headline numbers, the weaker trajectory of real income growth and further deceleration in inflation may turn out to be the bigger stories. Both bear watching over coming months.





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