TD Economics

April 1, 2013

Data Release: Personal income grows by 1.1% in February, while consumer spending posts largest gain in five months

- Personal income posted a gain of 1.1% in February, coming in well ahead of the markets expectations of 0.8%. January's reading was revised up by 0.1 percentage points, but still fell by 3.6% on the month, as income was pulled forward to December.

- Personal consumption expenditures posted its largest gain in five months, increasing by 0.7% in nominal terms. This reading came in slightly ahead of the market expectations, which was calling for a gain of 0.6%.

- Inflation as measured by the year-over-year change in the personal consumption deflator remained at the previous month's reading of 1.3% (revised up from 1.2%). Core PCE inflation, which excludes volatile items such as food and energy, also held steady at 1.3%.

Key Implications

- Despite being hit by a 2% increase in payroll taxes, and experiencing delayed tax refunds, American consumers continue to spend robustly. It is without question that record stock prices posted of late, in combination with rising home values, has helped households repair their damaged balance sheets, and better cope with the expiration of the payroll tax holiday.

- Moving forward, we anticipate that consumer spending will continue to grow over the coming months, albeit at a slightly more modest pace – as households continue to adjust to the payroll tax hike and effects of the recently enacted sequestration take hold.

- PCE inflation – the preferred measure of inflation used by the Federal Reserve – has remained relatively subdued over the last several months. Also, despite the recent gains in the labor market over the past year, considerable slack still exists. Both of these facts leave the Fed plenty of room to continue outright asset purchases well into 2013.

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