



## **US: PERSONAL INCOME WEAK ON THE SURFACE, DETAILS A LITTLE STRONGER THOUGH**

- **Personal spending rose by 0.5% M/M, while personal income rose by a softer than expected 0.1% M/M.**
- **Core PCE inflation remains soft, coming in at 0.0% M/M in January, putting the annual rate at 1.4% Y/Y.**
- **In real terms, personal spending was up 0.3% M/M, while real personal disposable income was down 0.6% M/M.**

U.S. consumer spending advanced by 0.5% M/M in January, following the 0.3% M/M gain the prior month (originally reported as 0.2% M/M), representing the fourth consecutive monthly advance. The January print was slightly stronger than the market consensus, given that the Street was looking for a print of 0.4% M/M. In real terms, personal spending was up a softer 0.3% M/M. Personal income rose by a slower pace than the market was expecting, advancing by just 0.1% M/M in January coming off the downwardly revised 0.3% M/M gain in December (originally reported at 0.4% M/M). Excluding government transfers, personal income declined by 0.2% M/M, highlighting the extent that government support continues to bolster household balance sheets. Additionally, when looking at the details of the report, the weakness in personal income seems to be coming from a reduction in farming income (-19.2% M/M) and interest on assets (-1.2% M/M). Typically, these sub-components tend to be overlooked in most analysis as they are quite minimal, though given that government transfers and compensation both saw growth during the month, it was worthwhile extending the analysis to these more obscure sub-components. There is no reason, however, to assume this weakness in income will persist. In real terms, personal disposable income was down a much more pronounced 0.6% M/M.

In terms of details, durable goods expenditures grew at a very tepid 0.06% M/M, which is the second consecutive month of soft readings. Non-durable goods expenditures, on the other hand, grew by 1.76% M/M, a great deal stronger than the 0.42% M/M decline seen in December, suggesting some degree of organic growth in spending. Taken together,

the 0.5% M/M advance seen in the January retail sales report did a good job at foreshadowing the uptick in spending activity during the month. As a result of the mediocre performance of consumer income, the savings rate declined for the first time since August 2009, dipping to 3.3% from 4.2% the prior month.

On the inflation front, core PCE inflation came in at 0.0% M/M (0.005% M/M at three decimal places) which is consistent with the soft pricing pressures seen in the broader economy, especially given the 0.1% M/M decline in core CPI over the same time frame. Further, both the 3-month and 6-month ann. trends declined, printing at 0.6% (from 1.49% the prior month) and 1.12% (from 1.25% the prior month), respectively. Looking back historically, the 3-month trend is flirting closely to its cyclical low of 0.54%, which was reached in January 2009. On an annual basis, core PCE inflation ticked down to 1.42% Y/Y from 1.53% Y/Y seen in December.

This was a highly mixed report, with personal spending up nicely and personal income up by a smaller degree than expected. On the spending side, consumer spending remains quite healthy, and given the larger than expected advance seen in the January retail sales report we were expecting a slight outperformance this month relative to market expectations. With respect to income, the softer print this month really isn't as bad as it looks on the surface, insofar as wage/salary and government transfers were robust, suggesting smaller one-off factors contributing to the decline. Having said that, when one strips away government transfers it becomes apparent that household balance sheets remain tied to the hip with government assistance. Inflation looks subdued to us, and with the large degree of slack in the U.S. economy we don't expect core pricing pressures to materialize meaningfully in the interim. We wouldn't get too excited about the decline in the savings rate, as it is more of a mathematical identity than an outright 'event'.

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