March Personal Income and Consumption

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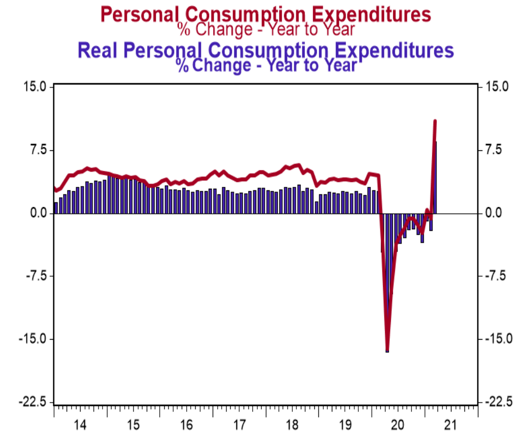
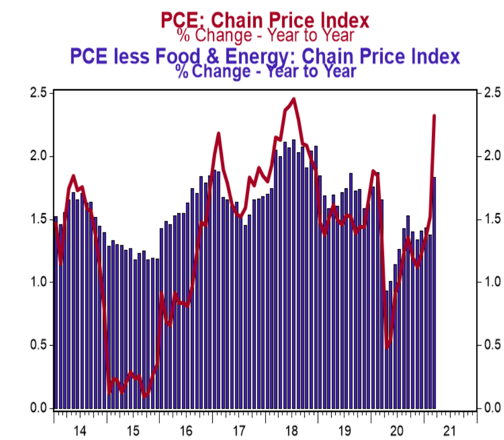
- Personal income soared 21.1% in March (+21.4% including revisions to prior months), beating the consensus expected +20.3%. Personal consumption rose 4.2% in March (+4.1% including prior month revisions). The consensus expected +4.1%. Personal income is up 29.0% in the past year, while spending has increased 11.0%.
- Disposable personal income (income after taxes) rose 23.6% in March and is up 32.3% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.5% in March and is up 2.3% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.4% in March and is up 1.8% in the past year.
- After adjusting for inflation, "real" consumption increased 3.6% in March and is up 8.5% from a year ago.





Source: Bureau of Economic Analysis/Haver Analytics

Implications: Personal income recorded the largest single-month increase in series history (going back to the late 1950s) as the "stimulus" payments from the "American Rescue Plan" were dispersed across the country. That said, it wasn't just government transfer payments (though those represented 94.6% of the monthly increase) that led incomes higher in March. We put far more weight on sustainable long-term drivers for the economy than on government stimulus, which is just borrowing spending from the future. On that front, private-sector wages and salaries increased a healthy 1.1% in March as progress on vaccinations and declining case numbers have more states easing restrictions. With the March rise, private-sector wages and salaries are up a 5.6% in the past year, and stand above pre-COVID levels. While the April data will show a historically large decline in personal income as the one-time stimulus checks roll off, this isn't anything to worry about. The best tailwind for the U.S. economy is coming not from our politicians, but from the near miraculous scientific achievements that have COVID-19 vaccines being distributed across the country. So far, 305.5 million vaccines have been distributed, with 237.4 million administered. Through yesterday, nearly 74 million doses have been administered in the month of April alone, a pace of roughly 2.5 million shots per day. It takes getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus has and will continue to be an opioid that hides the pain until the real healing takes place. As we get back toward "normal", wages and salaries will continue to move higher alongside outsized gains in employment. Like income, spending saw a significant rise in March, up 4.2%, though much of this pickup is likely attributable to extra checks hitting bank accounts. As with income, this measure is likely to be more volatile in the next few months, but we expect it will continue to trend higher as we move deeper into 2021. With incomes rising faster than spending in March, the saving rate jumped to 27.6%, behind just April of last year for the highest reading on record. On the inflation front, PCE prices grew 0.5% in March, are up 2.3% from a year ago. Core prices, which exclude food and energy, rose 0.4% in March and are up 1.8% from a year ago. Many see these data and argue that inflation remains below the Fed's target. However, over the past six months (which avoids the "base effect" issue when comparing to weak year-ago data), overall PCE prices are up at a 2.9% annualized rate, and if "core" PCE prices rise just 0.2% per month in April and May, the six month annualized change will rise to 2.7%. In other words, inflation now reflects the loose stance of monetary policy and an imbalance in supply and demand. Regardless, the Fed made clear on Wednesday that a faster pace of inflation in 2021 does not mean monetary policy will be tightening anytime soon; the Federal Reserve is perfectly fine with inflation exceeding the 2.0% target to make up for previous years when it fell short of that target. For now, the tailwinds for the U.S. economy are strong, and the second quarter is on track to surpass the already strong pace of activity seen through the first three months of the year.

Personal Income and Spending *All Data Seasonally Adjusted*	Mar-21	Feb-21	Jan-21	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**21.1%**	-7.0%	10.3%	137.9%	50.1%	29.0%
Disposable (After-Tax) Income	**23.6%**	-7.9%	11.6%	160.6%	55.8%	32.3%
Personal Consumption Expenditures (PCE)	**4.2%**	-1.0%	3.4%	29.0%	11.5%	11.0%
Durables	**10.8%**	-4.9%	11.7%	92.2%	28.4%	46.9%
Nondurable Goods	**6.5%**	-1.9%	5.9%	49.7%	15.4%	8.3%
Services	**2.2%**	0.0%	1.1%	14.0%	7.3%	6.6%
PCE Prices	**0.5%**	0.2%	0.3%	4.3%	2.9%	2.3%
"Core" PCE Prices (Ex Food and Energy)	**0.4%**	0.1%	0.2%	2.6%	1.9%	1.8%
Real PCE	**3.6%**	-1.2%	3.1%	23.8%	8.4%	8.5%

Source: Bureau of Economic Analysis