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Economics Group

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Personal Income Rises Modestly in March

Personal income rose a solid 0.4 percent in March and the prior month's gain was revised 0.1 percentage point higher. Spending rose just 0.3 percent, which allowed the saving rate to rise to 3.8 percent.

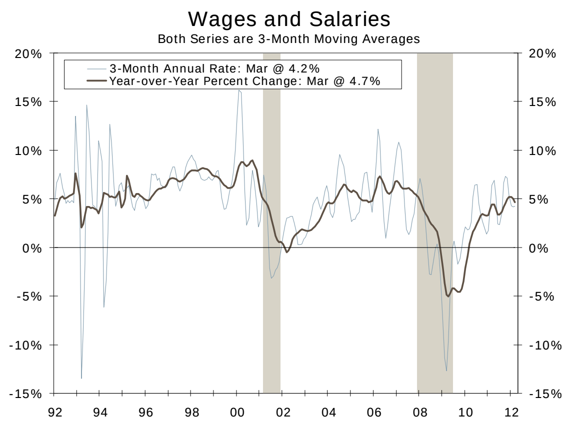
Personal Income Growth Rises Modestly

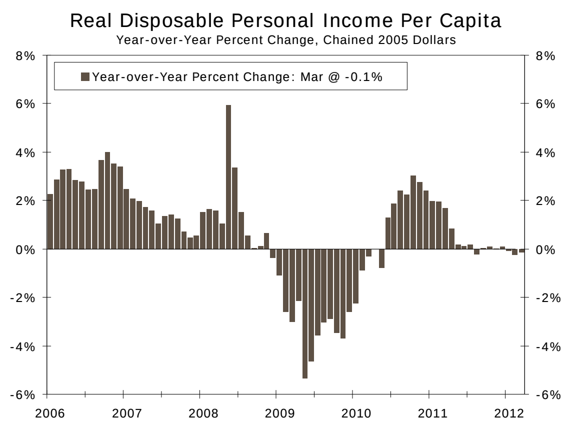
Personal income rose 0.4 percent in March, with most major components making positive contributions during the month. Wages and salaries, which account for a little more than half of overall personal income, rose 0.3 percent in March and climbed at a 4.3 percent annual rate during the first quarter. While most of the increase in wages and salaries continues to come from the service sector, manufacturing came in with another strong gain during the quarter, with wages and salaries in that sector climbing at a 7.9 percent annual rate. The real surprise, however, was government earnings, which registered a small, but notable, increase during the first quarter. Wages and salaries in government rose at a 1.3 percent annual pace, marking the largest quarterly gain in more than a year, suggesting that the drag from government cutbacks may be lessening.

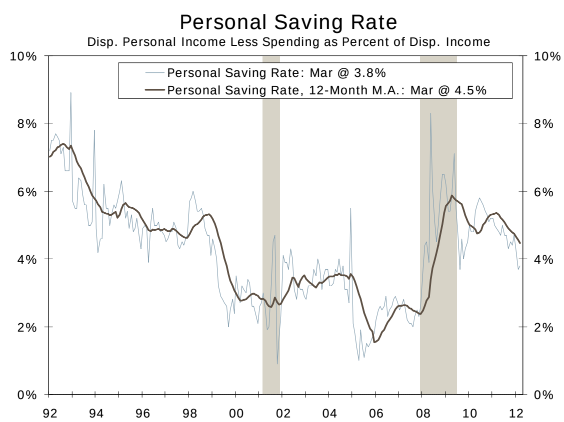
While the drag from government cutbacks may be lessening, wages and salaries ended the quarter on a weak note. The 0.3 percent gain posted in March reflected some slowing in the factory sector and a modest decline in earnings in trade, transportation and utilities. Overall income growth still remains exceptionally modest, particularly after adjusting for inflation and taxes. Real after-tax disposable income rose 0.2 percent in March, following declines of 0.1 percent in both January and February. On a per person basis, real after-tax income has shown essentially no growth for the past two years.

Given the weakness in real per capita after-tax income, the relatively healthy 2.9 percent growth in real personal consumption during the first quarter looks unsustainable. Outlays were driven by purchases of motor vehicles and other big-ticket items. Durable goods purchases grew at a 15.3 percent annual rate during the first quarter, accounting for 70 percent of the increase in overall outlays. Spending for nondurable goods also rose solidly, climbing at a 2.1 percent pace and outlays for services climbed at 1.2 percent annual pace.

So how can consumers spend so freely with real incomes stagnant? The answer may be a combination of improving confidence about the labor market and unseasonably mild winter weather. The growth in durable goods purchases occurred at a time when weekly unemployment claims were trending down and consumer confidence was rising. With workers feeling more secure about their employment prospects, more people moved forward with big-ticket purchases that were put on hold during the recession. Since most new vehicle purchases are financed, the sluggish growth in real income growth proved to be little impediment to such spending. The solid gains in spending, however, have driven the saving rate back below 4 percent and, with jobless claims inching back up, spending will likely rise at a slower pace during the current quarter.







Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

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