U.S. Data Review

- Personal income & consumption for April: respectable start to Q2
- PCE inflation: pickup in April as transitory influences fade
- Consumer sentiment: revised downward, but still firm

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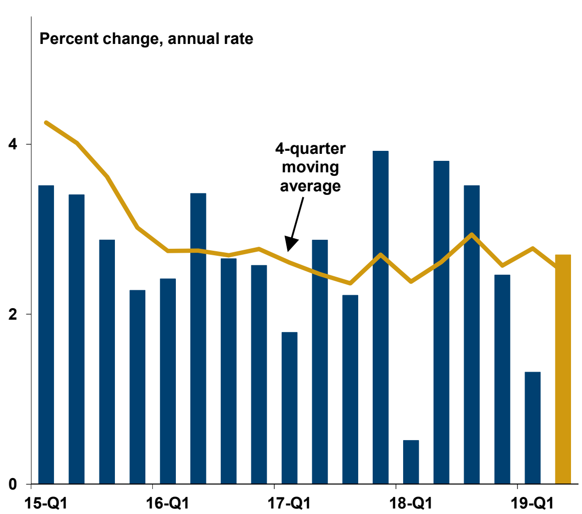
Personal Income, Consumption, Prices

Results for income and consumption were slightly stronger than expected, with income advancing 0.5 percent (versus an expectation of 0.3 percent) and consumption advancing 0.3 percent (versus a consensus forecast of 0.2 percent). The wage and salary component of income rose 0.3 percent, an upside surprise given a modest increase in average hourly earnings and a drop in the length of the average workweek. In addition, investment income was strong (both interest and dividends).

The increase of 0.3 percent in consumer spending translated to no change after adjusting for inflation. Outlays for durable goods were soft because of a drop in sales of new vehicles, and outlays for services were feeble as well, influenced by a contraction of 0.6 percent in the financial service category (perhaps distorted by unusual noise in the price of such services). Although real outlays in April were soft, consumer spending in Q2 is still likely to show respectable growth. Spending in March was strong, and holding this level in April put outlays above the average in Q1. Even with no growth in real outlays in the next two months, average spending in Q2 would show growth from Q1 of approximately two percent (annual rate). Moderate growth in May and June could push consumption growth close to three percent (chart, left).

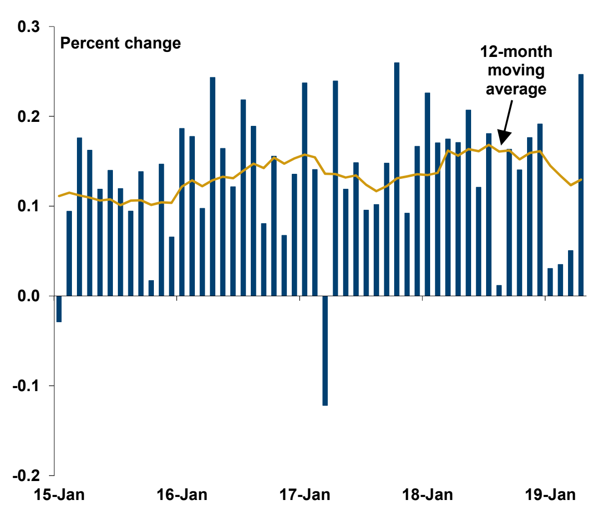
The price index for personal consumption expenditures rose 0.3 percent in April, matching expectations. The food and energy components were noisy, with energy prices jumping 2.9 percent while food prices fell 0.3 percent (which reversed a portion of surprising surges in the prior two months). The core component rose 0.2 percent and almost rounded up to 0.3 percent (0.247 percent; chart, right). The increase tilted on the high side, but it followed feeble increases in the prior three months, which were even softer than previously believed (January and February revised downward from 0.1 percent to no change; March revised up to 0.1 percent from no change). Also, the

Real Personal Consumption Expenditures*



* The reading for 2019-Q2 (gold bar) is an estimate based on data for April.
Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Core PCE Price Index



PCE = personal consumption expenditures
Source: Bureau of Economic Analysis via Haver Analytics

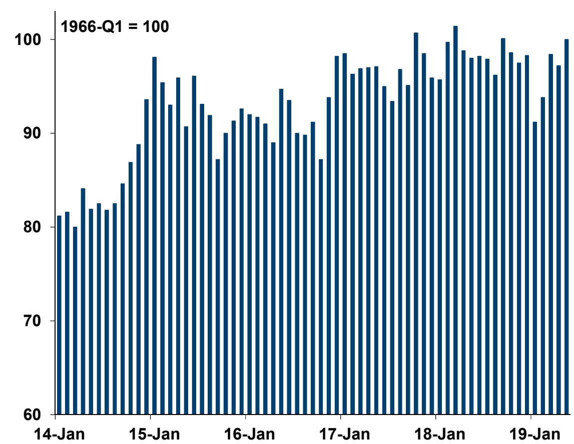
service sector accounted for much of the increase, with financial services (especially portfolio management services) and transportation (airfares) accounting for much of the advance. Fed Chairman Powell has emphasized the transitory nature of slow inflation in the early months of the year, and the new figures support his view. While many commentators have been arguing for easier monetary policy because of restrained inflation, today's report is likely to reinforce the inclination of Fed officials to remain on the sidelines for now.

Consumer Sentiment

The index of consumer sentiment for May was revised lower from the preliminary tally released two weeks ago, now showing a value of 100.0 rather than 102.4. Analysts were looking for a downward adjustment, but the revision of 2.4 points was larger than the expected change of 0.9 point. Although lighter than previously believed and shy of expectations, the index still shows positive attitudes among consumers. The May reading is among the best of the current expansion (only three slightly higher), and it is elevated by historical standards as well.

The downward adjustment was not surprising, as the preliminary tally was noticeably above the recent average and seemed to involve an element of random volatility. In addition, the drop in equity values in the second half of the month most likely had some influence on more recent responses.

Consumer Sentiment



Source: Reuters/University of Michigan Survey Research Center via Haver Analytics