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ECONOMIC TALKING POINTS

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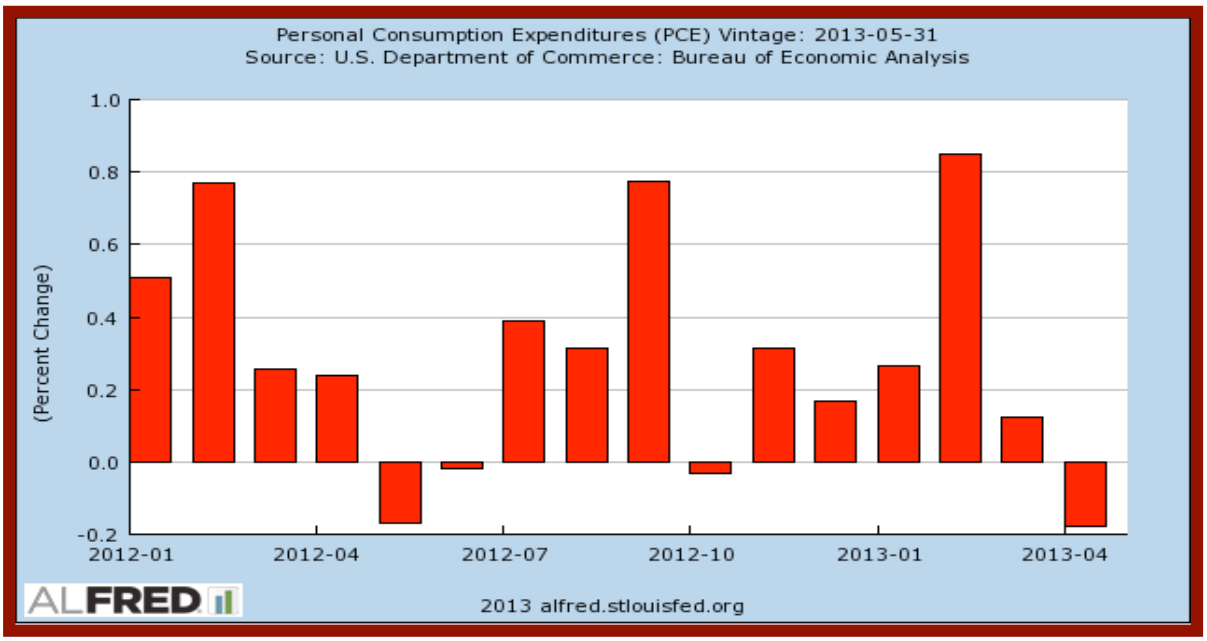
What's Really Behind April's Weak Personal Income & Spending Numbers?

Given the vital role consumers play in the economy, anytime both personal income and spending come in below expectations it understandably raises concern. So let's see what factors were behind some of the weak April numbers.

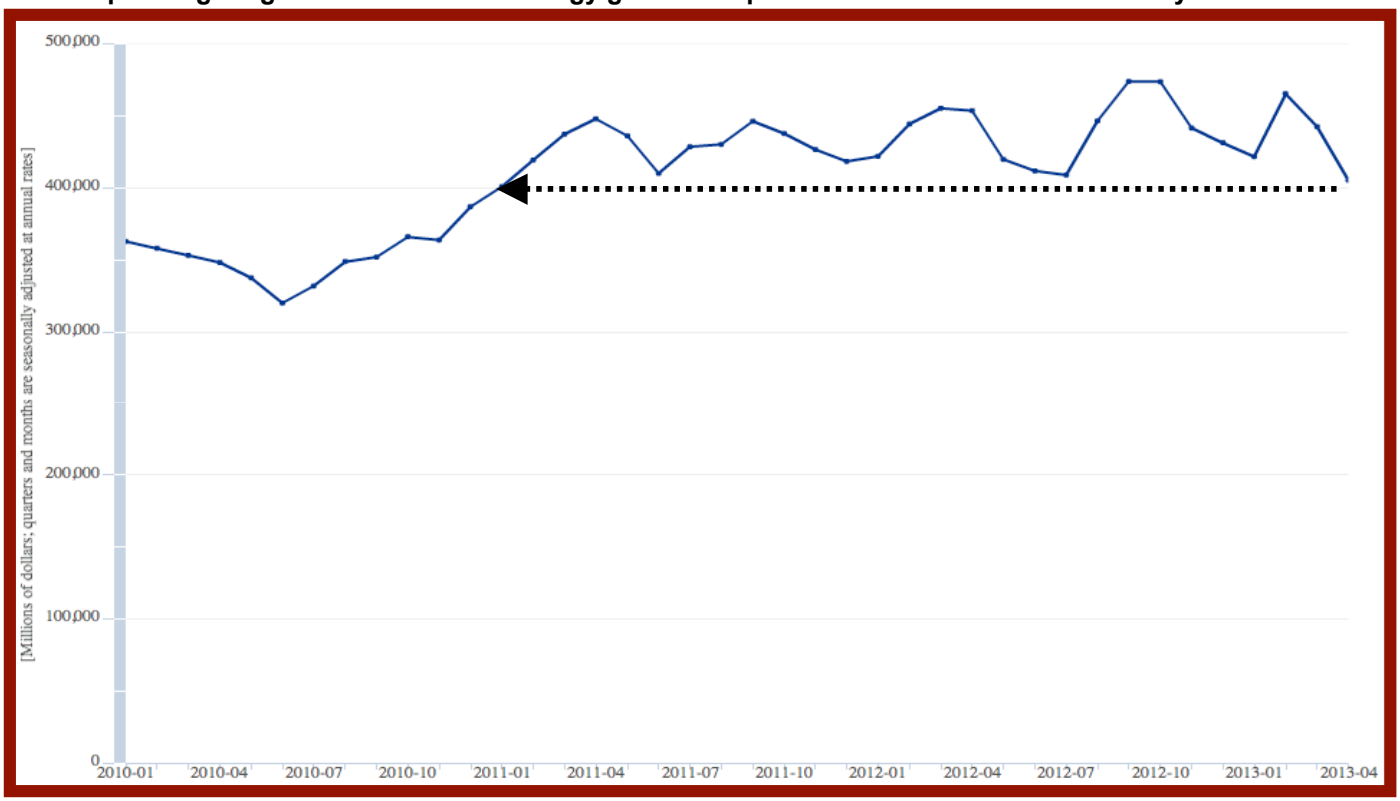
Personal spending slid 0.2% last month, a clear reversal in the trend we saw in the first quarter when consumer expenditures were the strongest in more than two years.



So what changed last month? The answers can be found in the supplemental tables by the Bureau of Economic Analysis. All of the decline occurred in purchases of nondurable items, and the bulk that was the sharp drop in outlays for fuel. Americans are spending a whole lot less on gasoline and other sources of energy---which should be good news.

Such expenditures plummeted to a $405 billion annual rate in April, the lowest for a month in more than two years!!

Spending on gasoline and other energy goods in April was the lowest since January 2011



Source: BEA

Now, you would think that if households spent less on fuel, more funds would be available for other kinds of purchases, and indeed that is what we saw. Purchases of consumer durables, big-ticket items that typically rise when consumers are more confident about jobs and income, came to a $1.28 trillion annual rate in April, the most ever! The 0.4% rise in durable goods purchase last month was the biggest increase so far this year and conforms to the generally upbeat outlook Americans have of the economy. Case in point: The University of Michigan just released its final survey on consumer sentiment for May and their index surged to 84.5, the most since July 2007!

There was certainly some disappointment on the personal income side for April, which showed no gain. But again, it's worth noting that one major reason for this was the significant drop in the category of proprietor's income, a fancy term that basically refers to farmers and the self-employed. This group saw their income drop 0.6% in April --- BUT all of it

was the result of rare steep decline in earnings by farmers. Non-farm proprietor's income actually rose last month.

So let's put April's personal income and spending numbers in perspective. Consumers are not shutting down spending. Indeed, the ongoing slide in outlays for gasoline, combined with better employment numbers and rising home values set the stage for more robust consumer spending in the months ahead.

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