Datanote: Personal Income and Spending, January

In one line: One spike in the core deflator after three very small increases does not change the trend.

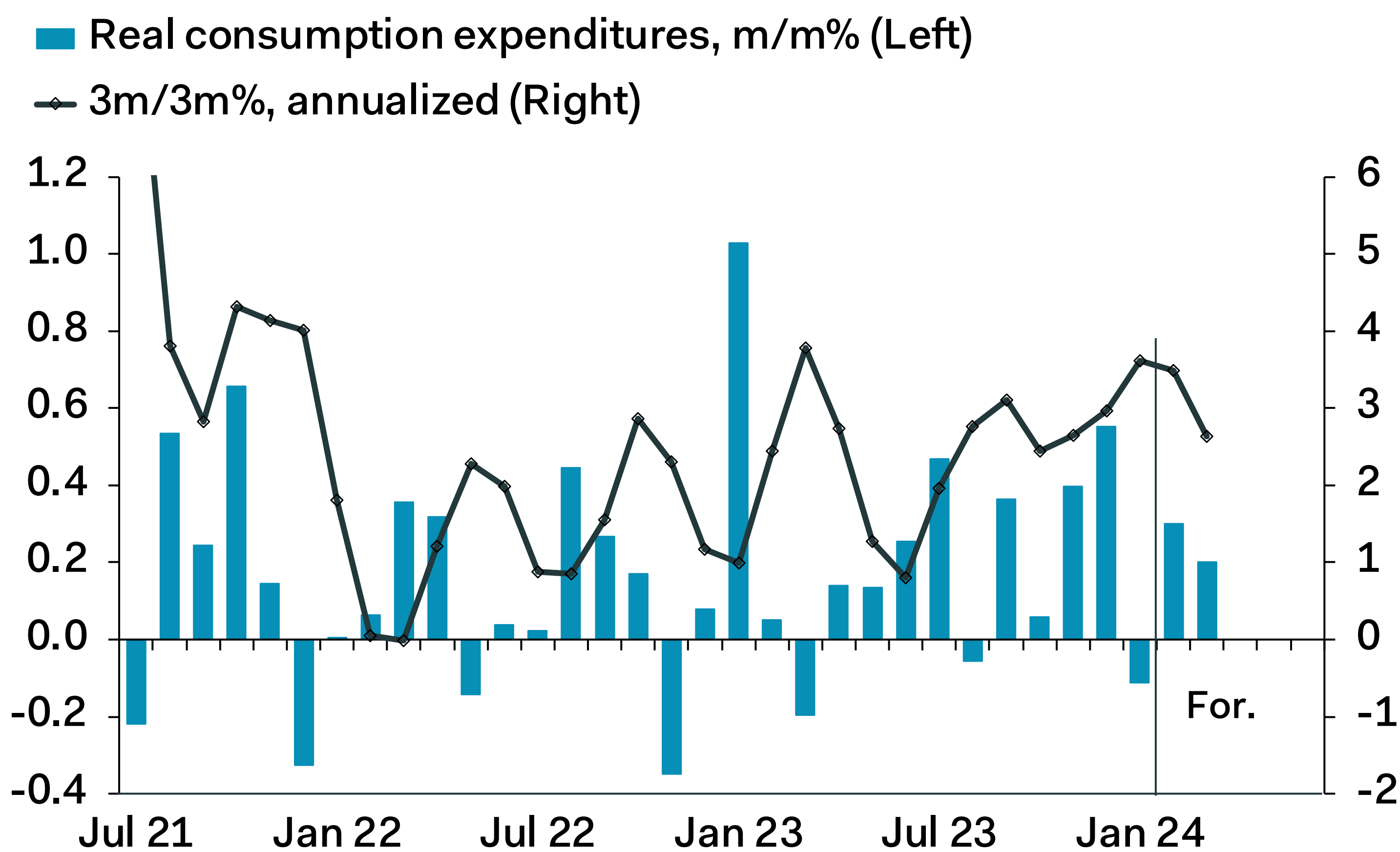
- The January core PCE deflator rose 0.4%, in line with the consensus.
- Real consumption fell 0.1%, also in line with the consensus.
- Personal income jumped 1.0%, well above the consensus, 0.4%.

The core PCE deflator rose 0.42%, the top end of the range of our forecast. The overshoot relative to the previous three months, during which the core deflator rose by an average of just 0.13%, is partly a correction, partly a consequence of the leap in OER reported in the CPI, and partly due to a jump in financial services prices, which likely won't be repeated. We see a good chance that the rate of increase of OER remains high for the next five months, though, depending on whether the January increase reflects a factor common to the other five panels of rental properties, which are sampled once every six months. This is unknowable, but we're putting it into our forecast to be on the safe side, unless the BLS comes up with clear reasons to think the January jump was a one-time fluke.

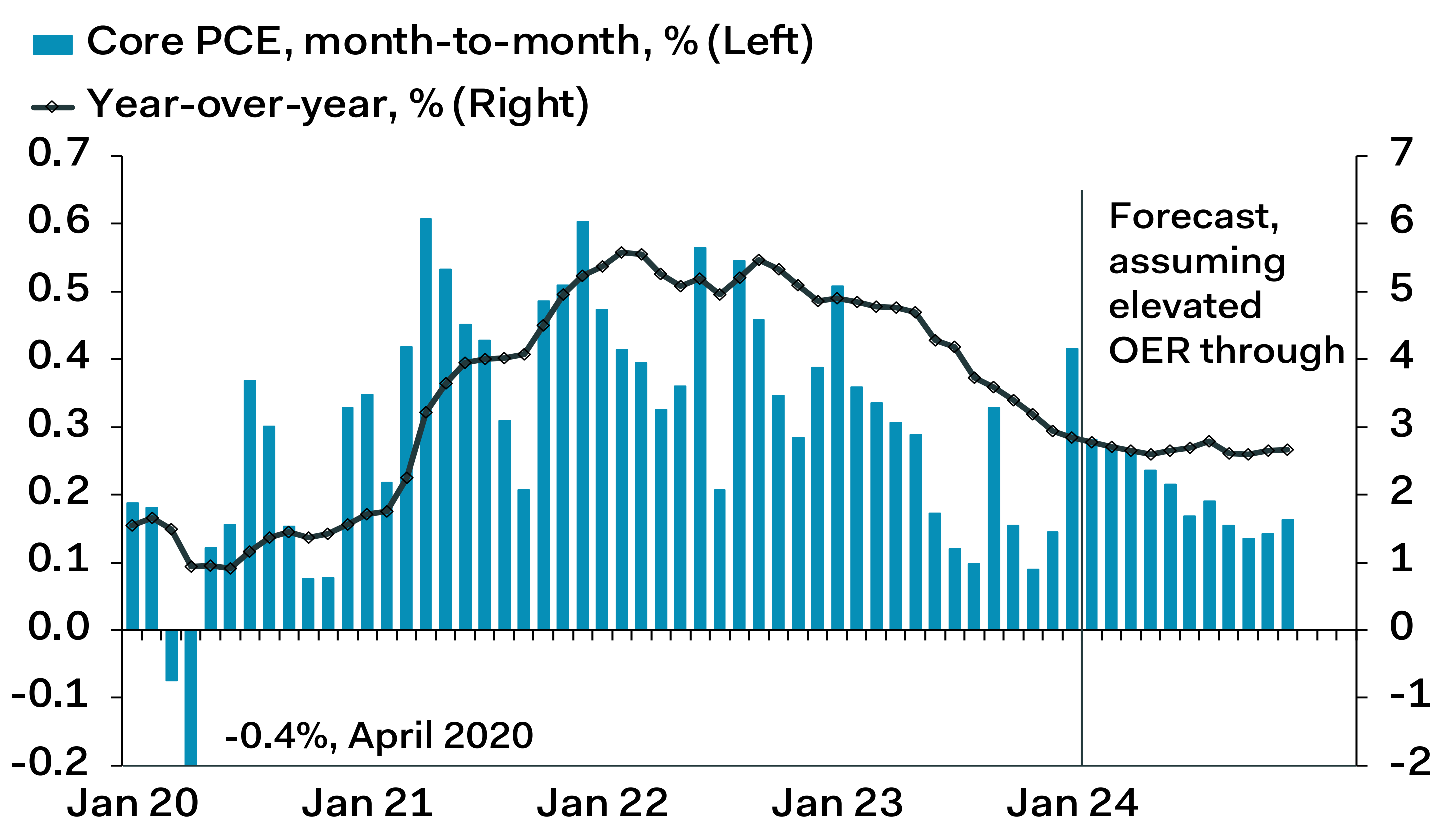
We see no reason, however, to change our big picture view that core inflation is falling and will continue to slide, thanks to the pass-through from slowing wage gains, improving supply chains, and margin re-compression. But the Fed is hyper-cautious after the “transitory” fiasco and a sustained run of relatively elevated core CPI/ PCE prints, even due to a temporary surge in an imputed component which is incomprehensible to 99.9% of the population, increases the chance that the first easing is delayed beyond our May forecast.

Personal incomes were boosted by the annual uplift to social security, which boosted payments by 3.5%, and a huge 4.1% jump in dividends received; both are one-time events. The trend is captured by the wage and salary component, which accounts for just over half of all income, and is running closer to 0.4% per month. Still, the jump in January incomes will support spending, and adds further credence to the idea that the softness in January consumption says more about the weather than the underlying state of the consumer. We expect a clear rebound in February spending, and we think Q1 is on course for an annualized 2.5% increase. That would be slower than the 3.0% Q4 gain, but very respectable.

Unfortunately the BEA has not updated its data download so we can't provide the usual array of charts. We'll cover the details in the US Monitor published this evening.



Real consumption expenditures, m/m% (Left)
3m/3m%, annualized (Right)
1.2
1.0
0.8
0.6
0.4
0.2
0.0
-0.2
-0.4
6
5
4
3
2
1
0
-1
-2
For.
Jul 21
Jan 22
Jul 22
Jan 23
Jul 23
Jan 24



Core PCE, month-to-month, % (Left)
Year-over-year, % (Right)
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0.0
-0.1
-0.2
7
6
5
4
3
2
1
0
-1
-2
Forecast, assuming elevated OER through
-0.4%, April 2020
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24