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March Personal Income Up 0.6% While Consumption Rose By 0.3%

By Kathleen Hays
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NEW YORK — Moderate income growth of 0.6% and a spending increase of 0.3% in March provided the latest evidence that a recovery is under way.

March's advance in personal income followed a healthy 1% rise in February and a decline of 0.2% in January. The Commerce Department said yesterday that as of last month, incomes totaled a seasonally adjusted annual rate of $4.99 trillion.

The increase in personal consumption expenditures was much slimmer than February's 0.8% rise or January's 1.1% gain. Even so, personal consumption expenditures totaled a seasonally adjusted $4.04 trillion in the first three months of the year.

With incomes rising faster than spending in March, the nation's saving rate increased from 4.5% of income in February to 5.3% of income in March.

Although March's income and spending gains were foreshadowed by Tuesday's gross domestic product data, economists noted that there was significant new information in yesterday's report.

Spending on services, which comprises the largest part of consumer expenditures, rose 0.8% in March, after rising 0.6% in February and 0.4% in February.

Adjusted for inflation, real service expenditures gained 0.4% in March, 0.2% in February and 0.1% in January.

By comparison, spending on durable goods fell 0.3% in March, or 0.5% adjusted for inflation, after rising 1.7% in February, or 1.2% inflation-adjusted. Expenditures for nondurables fell 0.5% in March, or 1.0% adjusted for inflation, after rising 0.7% in February or 0.3% inflation-adjusted.

"I was encouraged that (while) consumption of durables and nondurables was weak in March, the service sector picked up the slack. In terms of consumer spending, March was not as bad a month as we thought it would be," said Nancy Kimmelman, chief economist at Technical Data Corp. in Boston, a unit of Thomson Financial Services.

"The other important point is that we clearly see now that the trend in personal income is up, which is another piece of information making it pretty clear that recovery has begun," she added.

For the first quarter as a whole, real consumer spending rose at 5.3% annual rate. Indeed, it was this brisk rise in consumer purchases that helped offset a steep $26 billion in business inventories and contributed to the economy's 2% growth in the first quarter.

Looking ahead to the second quarter, economists agree that further growth will depend on increased employment, which in turn would fuel income and spending.

"We are seeing some decent growth in income, particularly in February and March, that add credence to the view that January was the end of the recession," said Anthony Vignola, chief economist at Kidder, Peabody & Co. "The latest data show there was more buying power and spendable funds available in the last two months."

He predicted, "We should start to see more employment growth in the second quarter, which will then add to income growth in the months ahead."

Vignola added that the latest figures on income and spending make him even more confident in his estimate of 3.9% growth in the second quarter and 3.5% in the third.

The more widespread view of an anemic, if not faltering, recovery rests on the expectation that employment growth will not pick up sufficiently to raise income.

"We're of the view that we will have a subpar recovery in employment," said Deborah Johnson, senior economist at C.J. Lawrence Inc. Like many other economists, she cited the many corporate restructurings that have resulted in permanent job cutbacks.

She said that the brisker pace of consumption in January and February was probably spurred in large part by unseasonably warm winter weather. For the second quarter, she predicted that consumption would slow to a modest 2% pace.

On the other end of the spectrum, those who expect the economy to surpass its first-quarter growth rate in the second quarter and beyond argue that inventories have been so sorely depleted that production must pick up in the months ahead.

With the manufacturing workweek already stretched to historically high levels and overtime hours rising, employers will be forced to hire new employees, they say.

"It's easy to debunk the jobs and personal income argument," said Campbell Harvey, associate professor of finance at the Duke University's Fuqua School of Business.

"The bulk of spending that drives the recovery obviously won't come from the 7.3% who are unemployed. It will come from those who are employed and earning incomes," he said. "As for personal income, that is something that lags a recovery — you spend on the basis of your expected income, the gains you expect to make as the economy picks up."

The major component of incomes, wages and salaries, rose 0.4% after an increase of 1.2% in February. Income gains in both months were padded by subsidies to farmers and more rapid payments to veterans ordered by President Bush. Excluding these factors, personal income rose 0.5% in March and 0.7% in February.

Economists frequently focus on real disposable personal income, that is, personal income after taxes and inflation, for a more precise gauge of consumers' spending potential.

For the first quarter as a whole, real disposable income rose at a 3% annual rate, the largest increase since the first quarter of 1990. In the fourth quarter of 1991, it gained a mere 0.9%, after increasing just 0.3% in the third quarter and 2.6% in the second. It fell 1.7% in the first quarter of 1991 and dropped 2% in the fourth quarter of 1990.

Some economists said the increase could help account for the improvement in consumer confidence seen so far this year, as well as to the gains in spending.

Those predicting relatively healthy growth in the economy are pinning their hopes on a pickup in auto production. Kidder's Vignola, for instance, noted that the Ford Motor Co. said it will be operating at more than 100% capacity in the second quarter, which should boost employment.

In addition, he said auto inventories are running at about 750,000 units at an annual rate, far lower than the 1.1 million unit inventory low hit in the 1981-82 recession. That suggests there is ample room for a pickup in output, he said.