

A woman shops at a store in Chicago. U.S. consumers continued to spend despite lower pay, government figures show. NAM Y. HUH/AP

Economists divided on government reports

Latest figures send mixed signals

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Economists are divided on whether Monday's reports on consumer spending and income growth bodes well for the future or portends more sluggish growth.

James Marple, senior economist with TD Bank, said that although personal income rose below expectations in March - 0.2 percent, below market expectations for 0.4 percent growth - real personal disposable income was up by a "respectable" 0.3 percent.

Coupled with personal consumption expenditures of 0.2 percent, 0.6 percent on services, Marple saw much to like in the government's report.

"Markets were pleasantly surprised last week by the 3.2 percent rise in consumer spending in the first quarter," he said. "Today's report is even more encouraging, showing that spending growth finished the first quarter on an especially strong note."

He added that the two percentage point increase in the payroll tax in January cut $139 billion (annualized) from household income in the first quarter.

"Economists have been waiting for the impact of the payroll tax to show up in weaker consumer spending, but so far it has not happened," he said.

But Eugenio Aleman, senior economist with Wells Fargo Securities, said last week's GDP report showed personal consumption expenditures were driven in part to higher costs for utilities due to prolonged below-average temperatures.

"Given the slow pace of core consumer spending, we continue to believe that consumers are struggling to cope with slow income growth and higher taxes this year even as inflation pressures have eased," Aleman said.

He added that he is not "overly optimistic about consumer spending in the second quarter. Our expectation is that real consumer spending will downshift to a 2.0 percent growth in the second quarter after the more robust 3.2 percent observed in the first quarter."

The Commerce Department said that the 0.2 percent rise in consumer spending in March followed a 0.7 percent jump in February and a 0.3 percent gain in January. Income increased 0.2 percent last month, following a gain of 1.1 percent in February. After-tax income also rose 0.2 percent.