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Economics Group

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Timing Is Everything: Tax Refunds & Q1 Consumer Spending

With individual tax filing season mostly complete, the number of refunds issued and the average refund size were down modestly compared to last year. A slow start, however, may have impacted Q1 consumption.

Was the Noisy Q1 Consumption Data Tax-Related?

Back in late February, we wrote a report on the federal tax filing season and its implications for the near-term economic outlook. At the time, through February 15 (the latest data available at that point) the total dollar amount of refunds issued was down a significant 38.8%, and the average refund size was down about 17%. We noted that the data were likely overstating the pace of decline, and that the following weeks could see a period of catch up.

More than two months later, about 90% of returns have been filed and processed. Despite concerns that people were either intentionally or unintentionally underwitheld, the data suggest that, in the aggregate, withholding was about right (top table). The percent of filers getting a refund fell, but only about half a percentage point, to 74.5% from 75.1%. Average refund size was also down, but again the decline was a relatively modest 1.5%. In the aggregate, $270 billion in refunds was issued, down about 2% compared to last year.

Note that these are aggregate numbers and could mask shifting patterns within the distribution. For example, taxpayers particularly hurt by the limitations on certain deductions, such as the state & local tax deduction or the mortgage interest deduction, may still have felt the pain this tax filing season. Although we will not have more granular data to confirm this for some time, some preliminary data do suggest there could be some truth to this story: non-withheld individual income tax receipts rose 10.6% in April on a year-over-year basis.

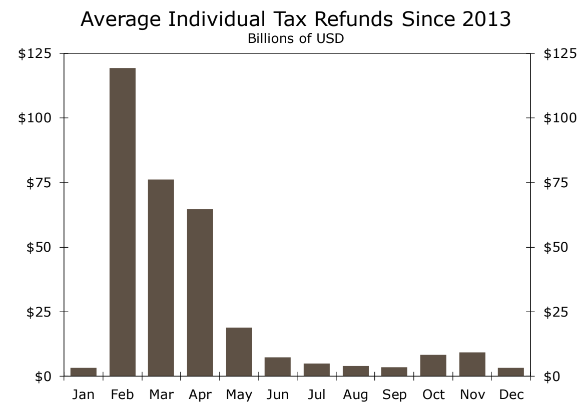
Conversely, it does appear the Child Tax Credit expansion we discussed in the original piece played an important role in the catch up that began at the end of February and carried into March. The timing of the catch up lined up with what we laid out originally, and April budget data released this week showed outlays for the refundable portion of the earned income and child tax credits are up 9% this fiscal year. Thus, there were likely quite a few taxpayers that saw significantly larger refunds compared to last year.

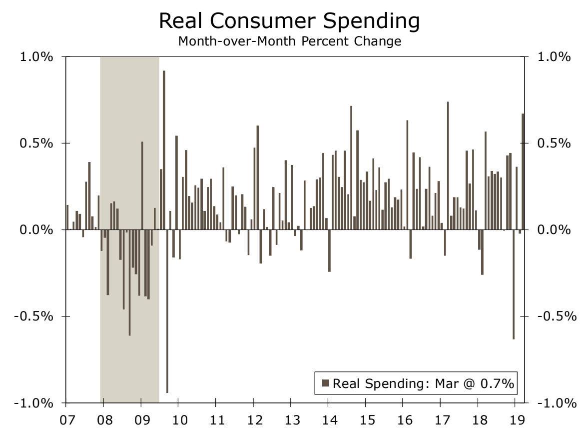
Did the extremely slow start to the filing season have an impact on consumer spending? It is hard to say for sure, but we suspect it may have played a role. The unusual decline in consumer spending in December and corresponding bounce back in January seems unrelated to tax refunds. On average, these two months only account for about 2% of the year's refunds (middle chart). February and March, on the other hand, usually account for about 60% of the year's refunds. Real personal spending growth was flat in February but then came roaring back in March, rising 0.7% over the month, the strongest monthly reading in two years (bottom chart). This is consistent with the initial weak start and subsequent rebound. Through the noise, real consumer spending is up a solid 2.7% year-over-year through March, and recent job and income gains should be supportive of continued consumer spending growth in Q2.

Individual Income Tax Returns

	2018	2019	
Total Returns Received	139.9M	139.4M	↓-0.4%
Total Returns Processed	132.6M	132.8M	↑0.2%
Average Refund	$2,771	$2,729	↓-1.5%
Total Refunds Issued	$275.7B	$270.0B	↓-2.1%
Percent Getting Refund	75.1%	74.5%	↓-0.6

Filing Season through 4/26/2019





Source: Internal Revenue Service, U.S. Department of Commerce and Wells Fargo Securities

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