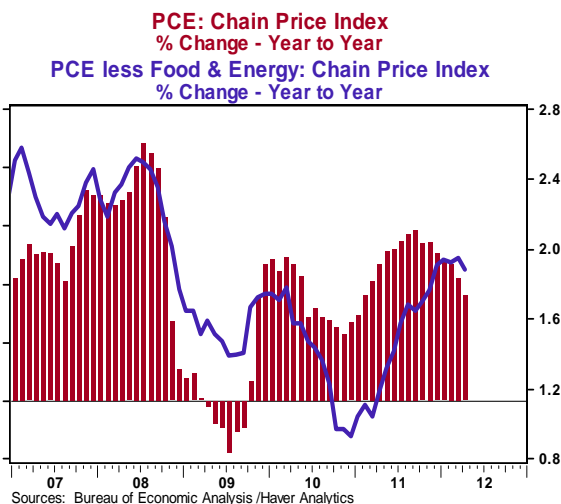
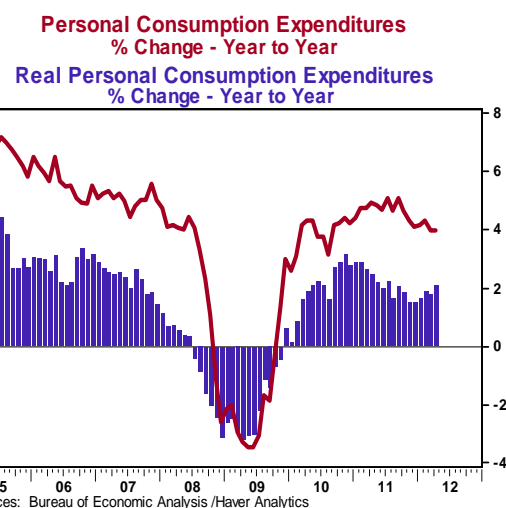


April Personal Income and Consumption

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- Personal income increased 0.2% in April, coming in close to the consensus expected gain of 0.3%. Personal consumption rose 0.3% in April, exactly as the consensus expected. In the past year, personal income is up 2.8% while spending is up 4.0%.
- Disposable personal income (income after taxes) was up 0.2% in April and is up 2.4% from a year ago. The gain in income in April was led by private-sector wages and salaries plus dividends. Private wages and salaries are up 4.1% in the past year while government transfer payments are up only 0.4%.
- The overall PCE deflator (consumer inflation) was flat in April but up 1.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in April and is up 1.9% since last year.
- After adjusting for inflation, “real” consumption was up 0.3% in April and is up 2.1% from a year ago.

Implications: The American consumer keeps buying. In fact, spending has accelerated of late. Personal consumption is up 4% from a year ago, but up at a 5.9% annual rate in the past three months. Most of these gains are supported by higher incomes, up 2.8% versus a year ago and at a 4% annual rate in the past three months. In addition, spending is getting a boost from a drop in households’ financial obligations – recurring payments like mortgages, rent, car loans/leases, as well as other debt service – which are now the smallest share of income since 1984. Meanwhile, government transfers have become only a minor factor behind consumption growth. Private sector wages and salaries are up 4.1% in the past year, while transfer payments are up only 0.4%. On the inflation front, overall consumption prices are up 1.8% in the past year, but have accelerated over the past three months to 2.2% at an annual rate, slightly above the Fed’s supposed target of 2%. The Fed’s favorite gauge of inflation – core PCE, which excludes food and energy – is up 1.9% from a year ago, just ever so slightly still below their target. Given healthy spending patterns and inflation already close to their target, the Federal Reserve still has no justification for another round of quantitative easing.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-12	Feb-12	Jan-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.4%	0.3%	4.0%	3.0%	2.8%
Disposable (After-Tax) Income	0.2%	0.4%	0.3%	3.6%	2.6%	2.4%
Personal Consumption Expenditures (PCE)	0.3%	0.2%	0.9%	5.9%	4.3%	4.0%
Durables	0.6%	-1.3%	2.1%	5.6%	7.9%	6.9%
Nondurable Goods	-0.2%	0.9%	1.3%	8.6%	4.5%	3.6%
Services	0.4%	0.3%	0.6%	5.0%	3.6%	3.6%
PCE Prices	0.0%	0.2%	0.3%	2.2%	1.9%	1.8%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.1%	1.7%	1.9%	1.9%
Real PCE	0.3%	0.0%	0.6%	3.6%	2.4%	2.1%

Source: Bureau of Economic Analysis