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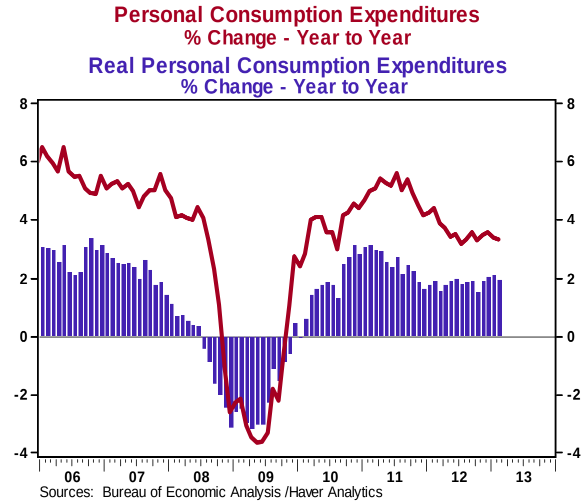
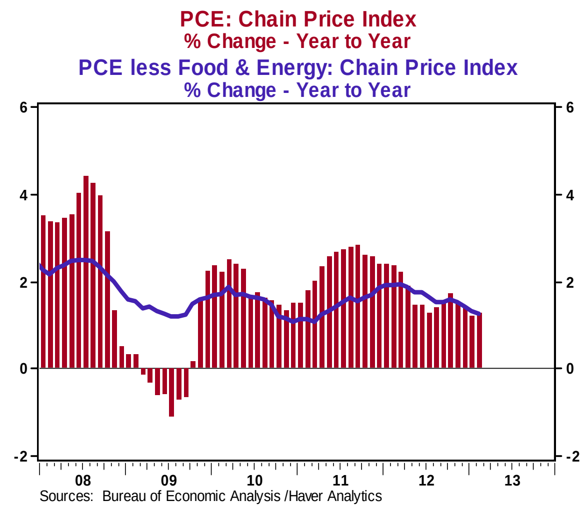
February Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Personal income rose 1.1% in February, coming in above the consensus expected increase of 0.8%. Personal consumption was up 0.7%, beating the consensus expected 0.6%. In the past year, personal income is up 2.6% while spending is up 3.3%.
- Disposable personal income (income after taxes) also increased 1.1% in February and is up 2.3% from a year ago. The rise in income was driven by dividends and private-sector wages and salaries.
- The overall PCE deflator (consumer inflation) was up 0.4% in February and up 1.3% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in February and is also up 1.3% in the past year.
- After adjusting for inflation, "real" consumption increased 0.3% in February and is up 2.0% from a year ago.





Implications: Friday's report on consumer spending drove a stake through the heart of the theory that the payroll tax hike or fears about the federal spending sequester were going to hurt consumer spending. "Real" (inflation-adjusted) consumer spending was up 0.3% in February after the same gain in January. Together, real spending is up at a 3.8% annual rate so far this year. As a result, we are now forecasting that real spending will be up at a 3% annual rate in Q1 versus the Q4 average. In addition, we are raising our forecast for Q1 real GDP growth to 3% (previously 2.5%). For all of 2013 (Q4/Q4), we have been forecasting a real GDP growth rate of 2.5 - 3%. It now looks like growth will be at the higher end of that range. The income numbers are a little trickier right now. Personal income rose 1.1% in February. However, most of the gain was due to tax-related fluctuations in dividends. Companies paid out dividends early in December to avoid the tax consequences of the New Year, artificially lowering payments in January. Now dividends are moving off of that artificial low and back toward normal. Even so, real private wages & salaries are up plow horse-like 1.9% from a year ago. This growth in income, combined with very low consumer financial obligations (debt service and other monthly payments) means consumer spending can keep growing. On the inflation front, the Federal Reserve's favorite measure of inflation, personal consumption prices, was up 0.4% in February but still up only 1.3% from a year ago. Core prices, which exclude food and energy, are also up only 1.3% from a year ago. Both are clearly below the Fed's 2% target. However, given the loose stance of monetary policy, look for inflation to move above the Fed's target later this year.

Personal Income and Spending *All Data Seasonally Adjusted*	Feb-13	Jan-13	Dec-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**1.1%**	-3.7%	2.6%	-0.4%	2.8%	2.6%
Disposable (After-Tax) Income	**1.1%**	-4.0%	2.7%	-1.4%	2.2%	2.3%
Personal Consumption Expenditures (PCE)	**0.7%**	0.4%	0.2%	5.0%	4.6%	3.3%
Durables	**0.0%**	0.5%	1.0%	5.7%	10.6%	5.6%
Nondurable Goods	**1.9%**	0.2%	-0.2%	7.8%	4.8%	3.0%
Services	**0.4%**	0.4%	0.2%	3.8%	3.6%	3.1%
PCE Prices	**0.4%**	0.0%	0.0%	1.7%	1.5%	1.3%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.2%	0.0%	1.1%	1.1%	1.3%
Real PCE	**0.3%**	0.3%	0.2%	3.2%	3.0%	2.0%

Source: Bureau of Economic Analysis