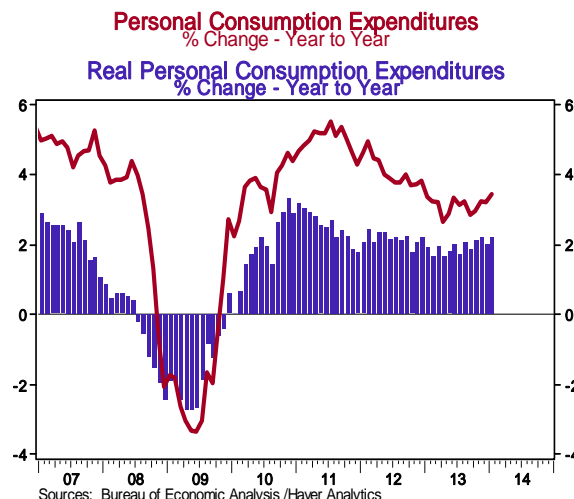


January Personal Income and Consumption

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- Personal income increased 0.3% in January, beating the consensus expected 0.2%. Personal consumption rose 0.4%, beating the consensus expected gain of 0.1%. Including revisions to prior months, personal consumption was unchanged. Personal income is up 4.1% in the past year, while spending is up 3.5%.
- Disposable personal income (income after taxes) increased 0.4% in January and is up 4.0% from a year ago. The gain in January was led by government transfers and private sector wages & salaries.
- The overall PCE deflator (consumer prices) increased 0.1% in January and is up 1.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in January and is up 1.1% in the past year.
- After adjusting for inflation, “real” consumption increased 0.3% in January (-0.1% including revisions to prior months) and is up 2.2% from a year ago.



Implications: Consumers braved the weather and lifted spending 0.4% in January, easily beating consensus expectations. Despite downward revisions for November and December, consumer spending is up at a 3.7% annual rate in the past six months and a 3.9% rate in the past three months. Personal income was up 0.3% in January, beating consensus expectations. A spike in government transfer payments, specifically due to an Obamacare-related surge in Medicaid payments (up 4.4% in January), added to incomes. But private-sector wages & salaries rose 0.3% and are now up 4.3% from a year ago. Inflation-adjusted personal income, excluding government transfers, is up 3.1% versus a year ago – the best growth in over a year. We expect both income and spending to keep growing. Job growth is ongoing and should show some acceleration in February despite continued brutal winter weather. Meanwhile, as unemployment gradually declines, employers will offer higher wages. In addition, consumers’ financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve’s favorite measure of inflation, the personal consumption price index, was up 0.1% in January. Core consumption prices were also up 0.1%. Overall consumption prices and core prices, which exclude food and energy, are up 1.2% and 1.1%, respectively, in the past year, both below the Fed’s 2% target. While we expect inflation to move higher, the Fed is not in any hurry to raise the federal funds rate.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-14	Dec-13	Nov-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.0%	0.3%	2.1%	2.9%	4.1%
Disposable (After-Tax) Income	0.4%	-0.1%	0.2%	1.8%	2.8%	4.0%
Personal Consumption Expenditures (PCE)	0.4%	0.1%	0.5%	3.9%	3.7%	3.5%
Durables	-0.3%	-2.6%	1.2%	-6.8%	-2.2%	0.8%
Nondurable Goods	-0.7%	1.1%	0.1%	2.0%	2.0%	3.0%
Services	0.9%	0.1%	0.5%	6.4%	5.4%	4.1%
PCE Prices	0.1%	0.2%	0.1%	1.4%	1.2%	1.2%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.2%	1.2%	1.1%
Real PCE	0.3%	-0.1%	0.4%	2.5%	2.5%	2.2%

Source: Bureau of Economic Analysis