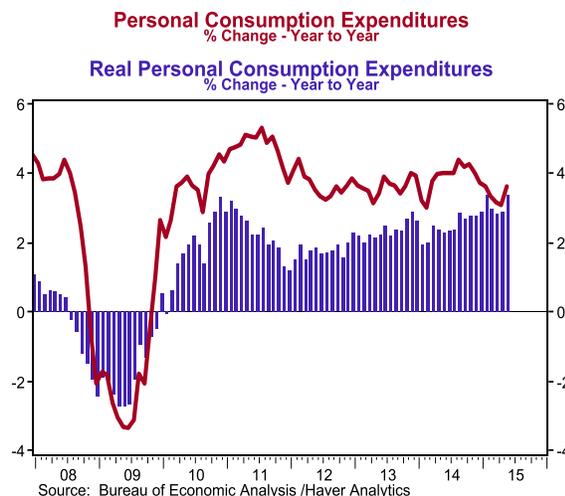


May Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elss – Economist

- Personal income increased 0.5% in May (0.6% including revisions to prior months). The consensus expected an increase of 0.5%. Personal consumption was up 0.9% in May (1.1% including revisions to prior months), beating the consensus expected 0.7%. Personal income is up 4.4% in the past year, while spending is up 3.6%.
- Disposable personal income (income after taxes) increased 0.5% in May, and is up 3.8% from a year ago. The gain in May was led by private-sector wages & salaries, interest, and small-business income.
- The overall PCE deflator (consumer prices) increased 0.3% in May and is up 0.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in May and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption rose 0.6% in May and is up 3.4% from a year ago.

Implications: Whatever happened to the theory that consumers would just pocket the savings from lower energy prices instead of spending it? Instead, consumer spending came back with a vengeance in May, rising 0.9%, the fastest pace for any month since 2009. And that was back when the government was using “cash-for-clunkers” to pass out checks to car buyers. Skipping that program, we’d have to go back to 2006. “Real” (inflation-adjusted) consumer spending is up 3.4% from a year ago, also the fastest growth since 2006. Expect more of this in the year ahead. Payrolls are growing about three million per year and wage growth is accelerating as well. Private-sector wages & salaries are up a robust 5.7% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.5% in May and is up 4.4% in the past year, faster than the 3.6% gain in consumer spending. This is why consumers have enough income growth to keep on lifting their spending without getting into financial trouble. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5%, largely driven by Obamacare. However, outside Medicaid, government transfers are up a slower 4.3% in the past year and unemployment compensation is the lowest since 2007. The bad news is that overall government transfer payments – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp. – aren’t falling back to where they were before the Panic of 2008, when they were roughly 14% of income. In early 2010, they peaked at 18%. Now they are down to around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy. The PCE deflator, the Fed’s favorite measure of inflation, increased 0.3% in May. Although it’s only up 0.2% from a year ago, it’s been held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.2% from a year ago. That’s still below the Fed’s 2% inflation target, but it’s up at a 1.7% annualized rate in the past three months. Now that energy prices have leveled off, look for overall inflation to move up toward “core” inflation over the rest of the year. In other news this morning, initial claims for unemployment insurance rose 3,000 last week to 271,000, the 16th straight week below 300,000. Continuing claims for regular state benefits increased 22,000 to 2.25 million. These claims numbers are at rock bottom levels and are about as good as it gets.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-15	Apr-15	Mar-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.5%	0.0%	4.1%	4.4%	4.4%
Disposable (After-Tax) Income	0.5%	0.4%	0.0%	3.8%	3.8%	3.8%
Personal Consumption Expenditures (PCE)	0.9%	0.1%	0.6%	6.5%	2.5%	3.6%
Durables	2.2%	0.1%	2.3%	19.8%	4.4%	5.4%
Nondurable Goods	1.9%	-0.7%	1.4%	10.7%	-1.9%	0.1%
Services	0.3%	0.3%	0.2%	3.2%	3.7%	4.5%
PCE Prices	0.3%	0.0%	0.2%	2.2%	0.0%	0.2%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.2%	1.7%	1.2%	1.2%
Real PCE	0.6%	0.0%	0.5%	4.2%	2.5%	3.4%

Source: Bureau of Economic Analysis