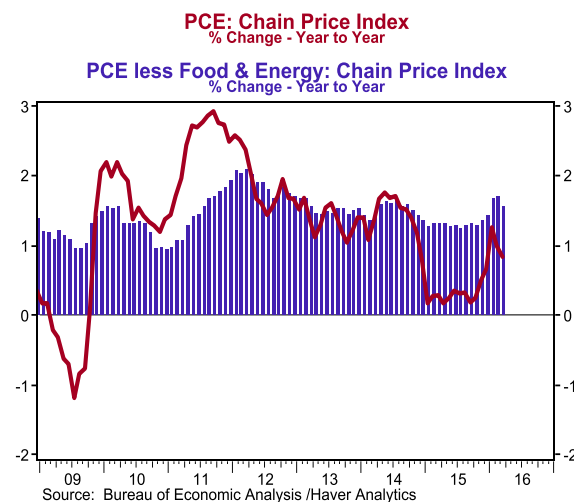
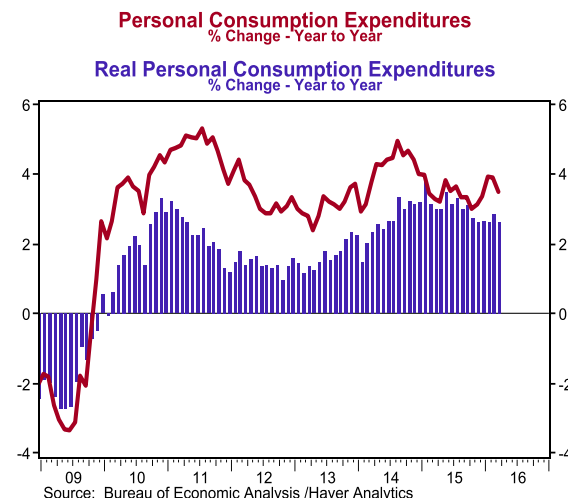


March Personal Income and Consumption

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- Personal income increased 0.4% in March (0.2% including prior months' revisions), versus a consensus expected 0.3%. Personal consumption rose 0.1% in March (0.3% including revisions to prior months). The consensus expected a gain of 0.2%. Personal income is up 4.2% in the past year, while spending is up 3.5%.
- Disposable personal income (income after taxes) increased 0.4% in March and is up 4.0% from a year ago. The gain in March was led by private sector wages and salaries.
- The overall PCE deflator (consumer prices) rose 0.1% in March and is up 0.8% versus a year ago. The "core" PCE deflator, which excludes food and energy, increased 0.1% in March and is up 1.6% in the past year.
- After adjusting for inflation, "real" consumption was unchanged in March but is up 2.6% from a year ago.

Implications: Incomes and spending continued to move higher in March, led by solid growth in wages and salaries. Personal consumption only rose by 0.1%, but this doesn't mean trouble for consumers, who have lifted spending for fourteen consecutive months. Adjusting for inflation, spending has not declined even once in the past 26 months, the longest streak on record! No signs of a recession here, only more moderate but steady Plow Horse growth. Spending is up 3.5% from a year ago, but it is not due to an unsustainable credit binge. Instead, it reflects higher purchasing power by American workers; private-sector wages and salaries rose 0.4% in March and are up 5.1% from a year ago. Overall personal income rose 0.4% in March, beating consensus expectations, and is up 4.2% in the past year, *growing faster than* spending. One part of the report we keep a close eye on is government redistribution. While unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons were up 0.3% in March and are up 3.6% in the past year, largely driven by the Obamacare-related expansion of Medicaid. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they're around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens the incentive to produce. On the inflation front, the PCE deflator, the Fed's favorite measure, increased 0.1% in March. Although it's only up 0.8% from a year ago, it continues to be held down by falling energy prices. The "core" PCE deflator, which excludes food and energy, is up 1.6% from a year ago. That's also below the Fed's 2% inflation target, but the core PCE deflator is up at a 2.1% annual rate in the past three months and we expect some acceleration in the year-to-year change in the months ahead. Together with continued employment gains, these data support the case for at least two rate hikes in 2016. In other news this morning, the Chicago PMI, a measure of manufacturing activity in that region, slipped to 50.4 in April from 53.6 in March. As a result, we are forecasting that the national ISM Manufacturing index slips slightly for April but remains above 50, signaling expansion.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-16	Feb-16	Jan-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.1%	0.4%	3.4%	3.4%	4.2%
Disposable (After-Tax) Income	0.4%	0.1%	0.4%	3.3%	3.1%	4.0%
Personal Consumption Expenditures (PCE)	0.1%	0.2%	0.2%	1.7%	2.3%	3.5%
Durables	-0.6%	0.1%	-0.6%	-4.4%	-1.9%	1.3%
Nondurable Goods	0.6%	-1.1%	-0.3%	-3.0%	-2.5%	0.4%
Services	0.1%	0.6%	0.4%	4.2%	4.5%	4.8%
PCE Prices	0.1%	-0.1%	0.1%	0.3%	0.4%	0.8%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.3%	2.1%	1.6%	1.6%
Real PCE	0.0%	0.3%	0.0%	1.4%	1.9%	2.6%

Source: Bureau of Economic Analysis