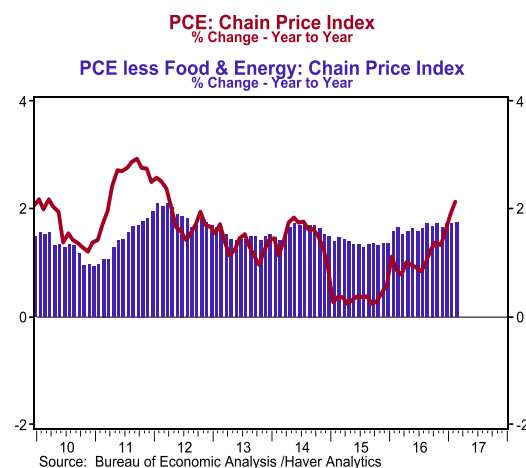
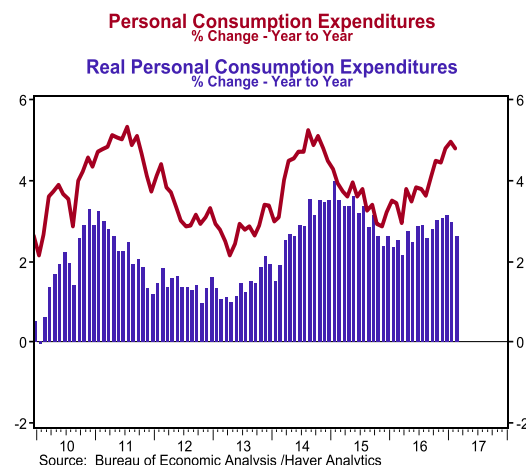


## February Personal Income and Consumption

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

- Personal income increased 0.4% in February, matching consensus expectations. Personal consumption rose 0.1% in February versus the consensus expected 0.2%. Personal income is up 4.6% in the past year, while spending is up 4.8%.
- Disposable personal income (income after taxes) increased 0.3% in February and is up 4.4% from a year ago. The gain in February was led by private-sector wages & salaries and rental income.
- The overall PCE deflator (consumer inflation) rose 0.1% in February and is up 2.1% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in February and is up 1.8% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in February but is up 2.6% from a year ago.

**Implications:** Hold off on income and spending for a moment, inflation just hit a key target. The Fed’s favorite measure of inflation, the PCE deflator, climbed above the Fed’s 2% inflation target in February for the first time since early 2012. By contrast, a year ago, in February 2016, the 12-month change for prices was only 0.9%; in February 2015, it was up a meager 0.4%. And it’s not just an energy story. “Core” prices, which exclude food and energy, rose 0.2% in February, and are up 1.8% from a year ago. These data should give the Fed comfort that it made the right decision in raising rates earlier this month, and now focus its attention on if a total of four, rather than three, hikes are appropriate in 2017. On the spending front, February’s tepid 0.1% increase is little reason for concern. Spending on goods was unchanged in February while spending on services rose a modest 0.1%. It didn’t help that the U.S. saw the second warmest February on record, which held down utility output once again. On the earnings side, income gains remain healthy, increasing 0.4% in February. The gains in income were led by private-sector wages & salaries and rental income. In the past year, overall personal income is up 4.6%, private wages & salaries are up 6.0%, while government benefits are up a slower 3.8%. If President Trump wants faster growth, he needs to slow the growth of (or outright reduce!) government benefits. The one consistent dark cloud in the income reports has been government redistribution. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – 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 work incentives. In other economic news this morning, the Chicago Purchasing Managers Index, which measures manufacturing sentiment in that region, rose to 57.7 in March from 57.4, hitting the highest reading since January 2015. As a result, we expect Monday’s national ISM Manufacturing report to remain high. Activity is picking up, employment and wages are rising, and policy looks to be headed in a positive direction. It has been a very healthy start to 2017.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-17	Jan-17	Dec-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.4%</b>	0.5%	0.3%	4.5%	4.2%	4.6%
<b>Disposable (After-Tax) Income</b>	<b>0.3%</b>	0.4%	0.3%	3.9%	4.0%	4.4%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.1%</b>	0.2%	0.6%	3.4%	4.8%	4.8%
<b>Durables</b>	<b>-0.1%</b>	-0.6%	1.7%	4.0%	6.6%	5.3%
<b>Nondurable Goods</b>	<b>0.0%</b>	1.0%	0.7%	6.9%	7.3%	6.0%
<b>Services</b>	<b>0.1%</b>	0.1%	0.4%	2.3%	3.7%	4.4%
<b>PCE Prices</b>	<b>0.1%</b>	0.4%	0.2%	3.0%	2.4%	2.1%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.3%	0.1%	2.5%	1.8%	1.8%
<b>Real PCE</b>	<b>-0.1%</b>	-0.2%	0.4%	0.5%	2.3%	2.6%

Source: Bureau of Economic Analysis