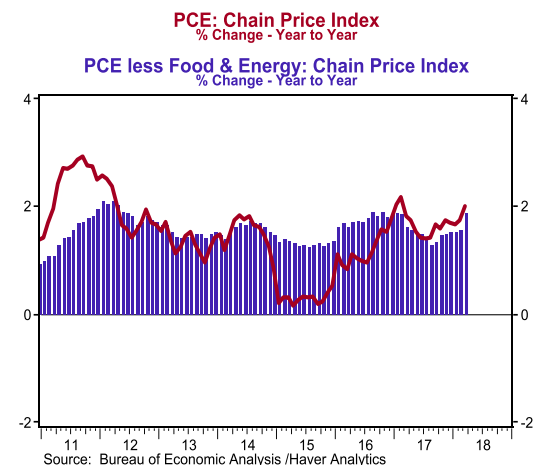
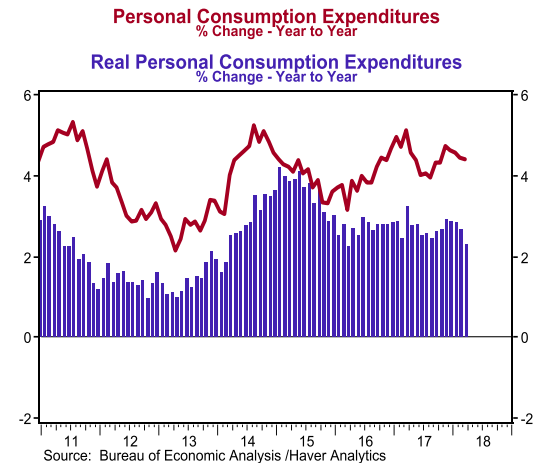


March Personal Income and Consumption

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

- Personal income rose 0.3% in March (+0.2% including revisions to prior months), coming in below the consensus expected gain of 0.4%. Personal consumption increased 0.4% in March, matching consensus. Personal income is up 3.6% in the past year, while spending is up 4.4%.
- Disposable personal income (income after taxes) rose 0.3% in March and is up 3.7% from a year ago. The gain in March was led by a rise in private-sector wages and salaries and government transfers.
- The overall PCE deflator (consumer prices) was unchanged in March but is up 2.0% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in March and is up 1.9% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in March and is up 2.4% from a year ago.

Implications: Rising wages and a pickup in take-home pay continue to boost incomes and consumer purchasing power. Personal income increased 0.3% in March, led by rising wages and salaries and increased social security benefits, and has seen a healthy 3.6% gain over the past twelve months. And the pace of income gains is accelerating, up at a 4.3% annual rate in the past six months. Meanwhile, largely due to the tax cut, disposable (after-tax) incomes are rising at an even faster 4.9% annual rate in the past six months. One piece of negative news in today’s report was a 0.4% increase in government transfer payments to individuals in March, led higher by Social Security benefits. But while government transfers are up 2.7% in the past year, total income has grown at a faster 3.6% during the same period (and private sector wages and salaries rose 4.8%!), so transfer payments are making up a smaller portion of income than a year ago. On the spending side, personal consumption increased 0.4% in March and is up 4.4% in the past year. Some have bemoaned this rise in spending, suggesting that consumers are digging themselves into a hole. But while consumer debts are at a record high in raw dollar terms, so are consumer assets. Meanwhile, the financial obligations ratio – which compares debt and other recurring payments to income – is still relatively low. In other words, consumers still have plenty of room to increase spending. On the inflation front, the overall PCE deflator was unchanged in March but is up 2.0% in the past year. “Core” prices, which exclude food and energy, are up 1.9% in the past year (and accelerating, up at a 2.6% annual rate in the past three months) supporting the changed language in the March Fed statement forecasting inflation will reach their 2% target “in coming months” rather than “this year.” Some claim the move to 2.0% is temporary, but we expect mostly higher inflation readings for the remainder of the year, a result of the loose monetary policy of the past several years. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that region, rose to 57.6 in April from 57.4 in March. We still expect a slight decline in tomorrow’s national ISM Manufacturing report, but also expect that report to keep showing robust growth in the factory sector. In housing news, pending home sales, which are contracts on existing homes, rose 0.4% in March after a 2.8% gain in February. These reports suggest existing home sales, which are counted at closing, should move higher in April.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-18	Feb-18	Jan-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.3%	0.4%	4.1%	4.3%	3.6%
Disposable (After-Tax) Income	0.3%	0.3%	0.9%	5.9%	4.9%	3.7%
Personal Consumption Expenditures (PCE)	0.4%	0.0%	0.2%	2.8%	4.5%	4.4%
Durables	0.8%	-0.4%	-1.6%	-4.9%	0.3%	3.9%
Nondurable Goods	-0.2%	-0.4%	0.9%	1.0%	3.0%	4.1%
Services	0.6%	0.2%	0.3%	4.7%	5.6%	4.6%
PCE Prices	0.0%	0.2%	0.4%	2.4%	2.2%	2.0%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.3%	2.6%	2.3%	1.9%
Real PCE	0.4%	-0.2%	-0.1%	0.4%	2.2%	2.4%

Source: Bureau of Economic Analysis