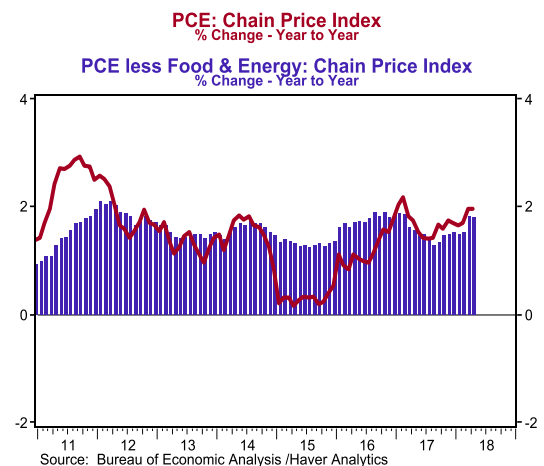
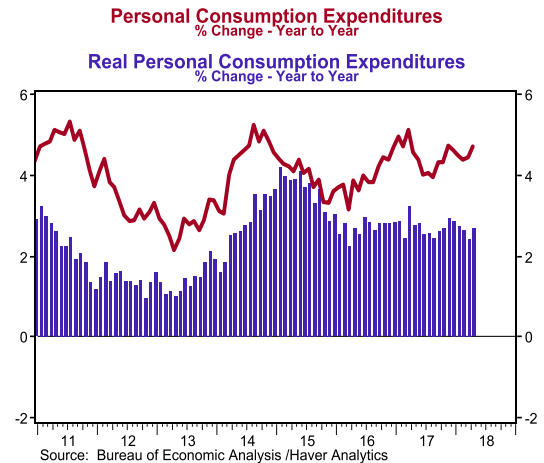


April Personal Income and Consumption

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- Personal income rose 0.3% in April, matching consensus expectations. Personal consumption increased 0.6% in April, coming in above the consensus expected rise of 0.4%. Personal income is up 3.8% in the past year, while spending is up 4.7%.
- Disposable personal income (income after taxes) rose 0.4% in April and is up 3.9% from a year ago. The gain in April was led by a rise in private-sector wages and salaries and government transfers.
- The overall PCE deflator (consumer prices) rose 0.2% in April and is up 2.0% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in April and is up 1.8% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in April and is up 2.7% from a year ago.



Implications: Rising wages and a pickup in take-home pay are providing consumers with fuller wallets and increased purchasing power. Personal income rose 0.3% in April, led higher by private sector wages and salaries and increased benefits for veterans and Medicare recipients. Incomes have seen a healthy 3.8% gain over the past twelve months while, disposable (after-tax) income – which better reflects the gains from tax cuts - is up 3.9% in the past year, matching the second largest twelve-month increase since 2015. On the spending side, personal consumption increased 0.6% in April and is up 4.7% in the past year. In recent years consumer spending has been growing faster than incomes, leading to concerns that consumers may be digging themselves into a financial hole. But it’s important to put this into perspective. While consumer debt has risen to a record high in dollar terms, consumer assets have grown faster, so liabilities continue to decline as a percent of household assets. Meanwhile the financial obligations ratio – which compares debt and other recurring payments to income – remains near multi-decade lows. In other words, consumers still have plenty of room to increase spending. One piece of negative news in today’s report was a 0.2% increase in government transfer payments to individuals, despite continued declines in spending on unemployment benefits as the labor market improves. But again, perspective matters. While government transfers are up 3.1% in the past year, total income has grown at a faster 3.8% over the same period (and private sector wages & salaries rose 4.9%!), so transfer payments are making up a smaller – though still too high - portion of income. On the inflation front, the PCE deflator rose 0.2% in April and is up 2.0% in the past year. “Core” prices, which exclude food and energy, are up 1.8% in the past year (and up at a 2.0% annual rate over the past three and six-month periods), suggesting the Fed may be tested sooner, rather than later, on how they will react if - or rather, when - PCE prices breach their “symmetric” inflation target. In employment news, initial claims data out this morning showed new claims for jobless benefits fell 13,000 last week to 221,000. Meanwhile continuing claims declined 16,000 to 1.73 million. These figures are in line with our expectation that tomorrow’s employment report will show private sector payrolls grew by a solid 183,000 in May. On the manufacturing front, the Chicago PMI, which measures manufacturing sentiment in that region, jumped to 62.7 in May from 57.6 in April. Look for a move higher in tomorrow’s national ISM Manufacturing report, showing robust growth in the factory sector. Finally, in housing news, pending home sales (contracts on existing homes) declined 1.3% in April after a 0.6% gain in March and 2.8% rise in February. These reports suggest existing home sales, counted at closing, should move modestly higher in May.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-18	Mar-18	Feb-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.2%	0.3%	3.5%	4.1%	3.8%
Disposable (After-Tax) Income	0.4%	0.2%	0.3%	3.8%	5.0%	3.9%
Personal Consumption Expenditures (PCE)	0.6%	0.5%	0.0%	4.7%	5.0%	4.7%
Durables	0.3%	1.6%	-0.2%	6.7%	1.5%	4.5%
Nondurable Goods	0.9%	-0.1%	-0.2%	2.4%	5.6%	4.9%
Services	0.5%	0.6%	0.2%	5.1%	5.4%	4.7%
PCE Prices	0.2%	0.0%	0.1%	1.6%	2.2%	2.0%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.2%	2.0%	2.0%	1.8%
Real PCE	0.4%	0.5%	-0.1%	3.1%	2.7%	2.7%

Source: Bureau of Economic Analysis