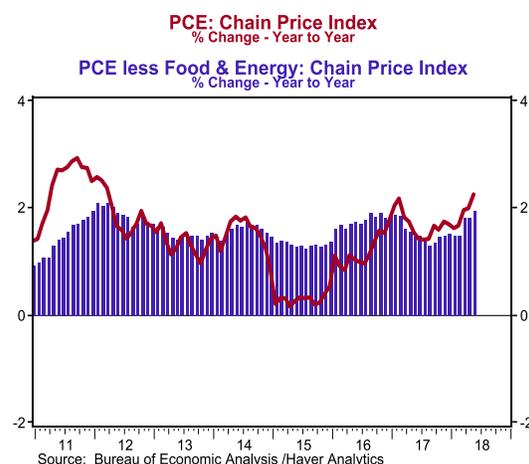
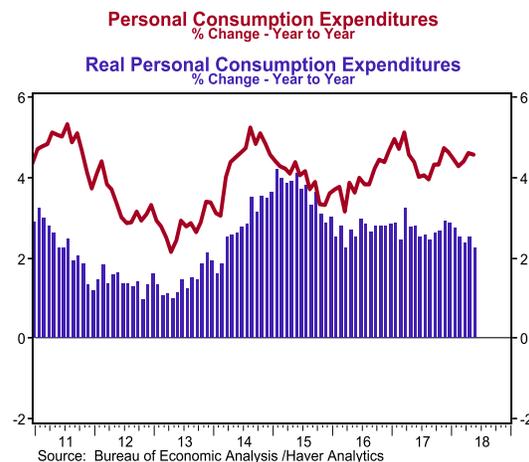


## May Personal Income and Consumption

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- Personal income rose 0.4% in May, matching consensus expectations. Personal consumption increased 0.2% in May (+0.1% including revisions to prior months), lagging the consensus expected rise of 0.4%. Personal income is up 4.0% in the past year, while spending is up 4.6%.
- Disposable personal income (income after taxes) rose 0.4% in May and is up 4.0% from a year ago. The gain in May was led by private-sector wages and salaries and dividend income.
- The overall PCE deflator (consumer prices) rose 0.2% in May and is up 2.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in May and is up 2.0% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in May but is up 2.3% from a year ago.

**Implications:** While comfortable May weather held down consumer spending on utilities, incomes continued to rise. Personal income rose 0.4% in May, led by private-sector wages and salaries and dividend income. Incomes have seen a healthy 4.0% gain over the past twelve months, while disposable (after-tax) income is also up 4.0% in the past year, matching the largest twelve-month increase since 2015. On the spending side, personal consumption increased 0.2% in May and is up 4.6% 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 relative to 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 of the best pieces of news in today’s report is that government transfers continue to grow at a slower pace than overall income. So while government transfers are up 3.6% in the past year, total income has grown at a faster 4.0% over the same period (and private sector wages & salaries have risen 5.3%), 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 May and is up 2.3% in the past year. More important is that “core” prices, which exclude food and energy, are up 2.0% in the past year, the first time the core index has touched 2.0% on a twelve-month basis in more than six years. In other words, the Fed looks set to be tested sooner, rather than later, on how they will react as PCE prices breach their “symmetric” inflation target. On the manufacturing front, the Chicago PMI, which measures manufacturing sentiment in that region, rose to 64.1 in June from 62.7 in May. Look for another strong reading of about 58.7 in Monday’s national ISM Manufacturing report, showing robust growth in the factory sector.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-18	Apr-18	Mar-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.4%	0.2%	0.3%	3.7%	4.2%	4.0%
<b>Disposable (After-Tax) Income</b>	0.4%	0.3%	0.3%	4.3%	5.3%	4.0%
<b>Personal Consumption Expenditures (PCE)</b>	0.2%	0.5%	0.6%	5.4%	3.8%	4.6%
<b>Durables</b>	0.1%	-0.2%	1.5%	5.8%	-0.6%	4.1%
<b>Nondurable Goods</b>	0.6%	0.9%	0.2%	6.8%	4.3%	6.0%
<b>Services</b>	0.1%	0.5%	0.6%	5.0%	4.3%	4.2%
<b>PCE Prices</b>	0.2%	0.2%	0.0%	2.0%	2.3%	2.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.2%	0.2%	0.2%	2.2%	2.3%	2.0%
<b>Real PCE</b>	0.0%	0.3%	0.6%	3.4%	1.5%	2.3%

Source: Bureau of Economic Analysis