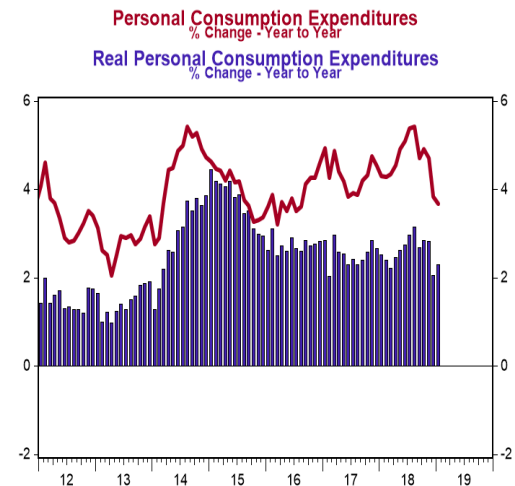


Feb. Personal Income and Jan. Consumption

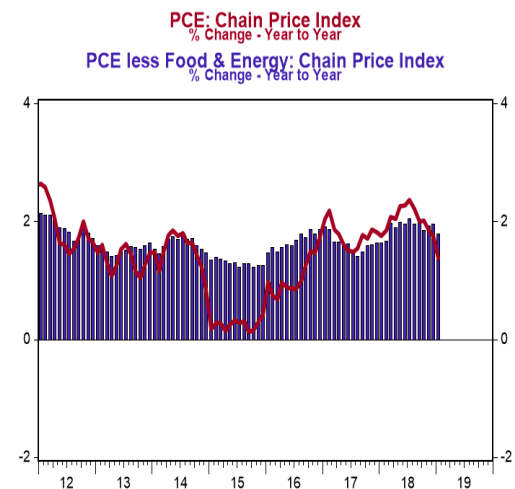
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- Personal income rose 0.2% in February (+0.3% including revisions to prior months), versus a consensus expected 0.3%. Personal consumption rose 0.1% in January (-0.1% including revisions to prior months), falling short of the consensus expected rise of 0.3% (February spending data will be released in next month's report). Personal income (as of February) is up 4.2% in the past year, while spending (as of January) is up 3.7%.
- Disposable personal income (income after taxes) rose 0.2% in February, and is up 4.3% from a year ago. The gain in February was led by private sector wages and salaries.
- The overall PCE deflator (consumer prices) declined 0.1% in January but is up 1.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.1% in January and is up 1.8% in the past year.
- After adjusting for inflation, "real" consumption rose 0.1% in January, and is up 2.3% from a year ago.

Implications: Incomes and spending are both on the rise in early 2019, though the pace leaves something to be desired. Continuing with the odd release schedule due to the government shutdown, personal income data were released for February while we got January data on spending (we got January data on income last month). Let's start with income, which rose 0.2% in February following a surge in December and pullback in January. While recent months were impacted by special dividends, February was a return to the more typical trend, with gains led by a 0.3% rise in private sector wages and salaries. Farmers continue to see elevated income gains thanks to Department of Agriculture subsidy payments, while government transfer benefits rose 0.4% in February due to rising Medicare payments. On the spending side, personal consumption rose 0.1% in January as a rise in services offset a decline in spending on goods. Looking deeper at the details shows that a slowdown in spending on autos was the primary headwind. Strip out autos, and "real" personal consumption rose a healthy 0.4% in January. Looking beyond the monthly data, the trend shows an interesting – and somewhat confusing – picture. Through January, incomes are up 4.3% in the past year (4.4% after taxes), while spending has risen 3.7%, both healthy numbers. But, lately, income has continued to trend around 4.5% annualized growth while spending has (supposedly) flat-lined since November. We expect this slow-patch in spending to subside in the coming months with a return towards the 4% annualized spending growth seen over recent years. Rising wages, healthy jobs growth, and strong consumer balance sheets suggest the fundamentals are in place for a pickup in spending. Finally, "core" inflation – which excludes the volatile food and energy sectors – rose 0.1% in January and is up 1.8% in the past year. And if the consumer and producer price indices are any guide (we already have February reports for both series), prices are set to continue higher. As a whole, today's report left us wanting, but shouldn't have anyone ringing alarm bells.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-19	Dec-18	Nov-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-0.1%	1.0%	0.3%	4.7%	4.7%	4.3%
Disposable (After-Tax) Income	-0.2%	1.1%	0.3%	4.9%	4.8%	4.4%
Personal Consumption Expenditures (PCE)	0.1%	-0.6%	0.5%	-0.1%	2.3%	3.7%
Durables	-1.2%	-2.9%	1.7%	-9.4%	-3.8%	0.0%
Nondurable Goods	0.3%	-2.2%	0.3%	-6.3%	-1.4%	1.4%
Services	0.2%	0.3%	0.4%	3.3%	4.3%	4.9%
PCE Prices	-0.1%	0.1%	0.1%	0.2%	0.9%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.2%	1.7%	1.5%	1.8%
Real PCE	0.1%	-0.6%	0.4%	-0.3%	1.3%	2.3%

Source: Bureau of Economic Analysis