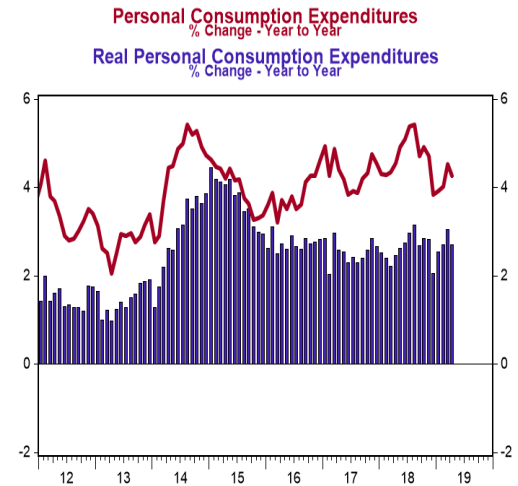


April Personal Income and Consumption

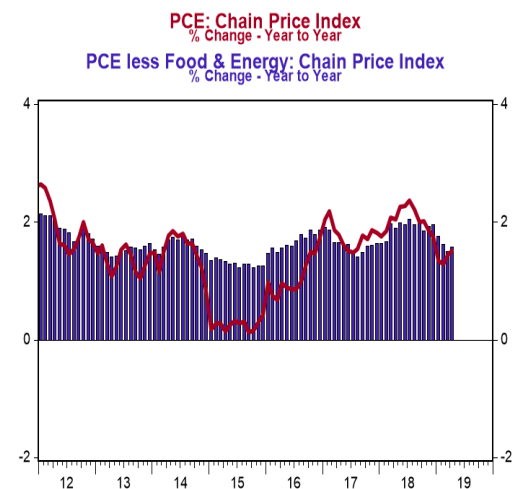
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- Personal income rose 0.5% in April (+0.3% including revisions to prior months), beating the consensus expected gain of 0.3%. Personal consumption rose 0.3% in April (+0.4% including revisions to prior months), matching the consensus. Personal income is up 3.9% in the past year, while spending has increased 4.3%.
- Disposable personal income (income after taxes) rose 0.3% in April and is up 3.9% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in April and is up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in April and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in April, but is up 2.7% from a year ago.

Implications: Rising incomes and spending show the second quarter got off to a strong start in April. Personal income rose 0.5% - the largest one-month jump in 2019 and tied for the second largest monthly increase in more than two years - as interest income and wages & salaries pushed incomes higher. Meanwhile spending rose a respectable 0.3% in April, made more impressive considering that comes after a 1.1% jump in March (which, we should note, was revised higher in today’s report from the original reading of +0.9%), the fastest monthly growth since 2009. Within spending, a decline in purchases of durable goods (think autos and home appliances) was offset by a rise in spending on non-durable goods and services. In the past year, personal spending has increased a very healthy 4.3%, and is up at a 5.6% annualized rate over the past three months. Incomes have increased 3.9% in the past year and are up 3.5% at an annualized rate in the past three months. In other words, fears at the end of last year that growth was slowing (remember the fuss over December’s report that spending fell 0.5%?) have proven laughable. That is exactly why it is so important to focus on the trend over volatile month-to-month data. And the trends in both incomes and spending show continued healthy growth. On the inflation front, PCE prices rose 0.3% in April and are up 1.5% in the past year. “Core” prices – which excludes the volatile food and energy sectors – rose 0.2% in April and are up 1.6% in the past year. Pair this with the 3.1% real GDP growth [reported for the first quarter](#), and it should be clear that a rate cut shouldn’t be on the Fed’s radar. It’s true that a 1.6% core inflation is below the Fed’s 2% target, but there is no reason to fear a deflationary environment. We expect inflation to move higher in the months ahead, but even if it doesn’t, inflation is not weak enough to justify cutting rates. In other news this morning, the Chicago Purchasing Managers Index (a gauge of business sentiment in the region) rose to 54.2 May from 52.6 in April, suggesting a pickup in the pace of growth in the area. The national ISM Manufacturing index will be released Monday and we expect an increase to 53.7 for May from 52.8 in April.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-19	Mar-19	Feb-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.1%	0.2%	3.5%	3.9%	3.9%
Disposable (After-Tax) Income	0.4%	0.1%	0.2%	2.6%	3.4%	3.8%
Personal Consumption Expenditures (PCE)	0.3%	1.1%	0.0%	5.6%	3.2%	4.3%
Durables	-0.8%	3.6%	-1.6%	4.9%	-0.2%	1.0%
Nondurable Goods	0.7%	1.6%	-0.3%	8.5%	2.1%	3.8%
Services	0.3%	0.6%	0.3%	4.9%	4.1%	4.9%
PCE Prices	0.3%	0.2%	0.1%	2.4%	1.3%	1.5%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.0%	1.3%	1.5%	1.6%
Real PCE	0.0%	0.9%	-0.1%	3.1%	1.9%	2.7%

Source: Bureau of Economic Analysis