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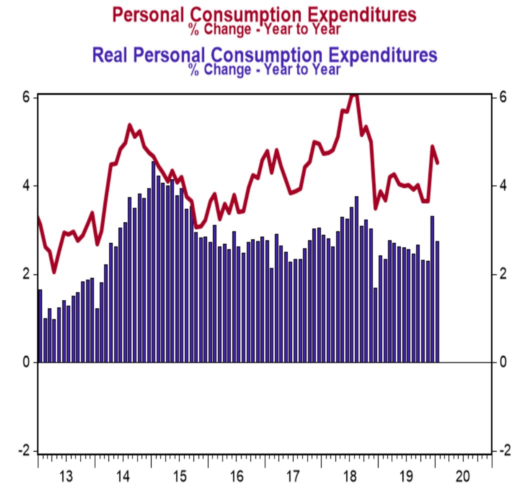
February 28, 2020 • 630.517.7756 • www.ftportfolios.com

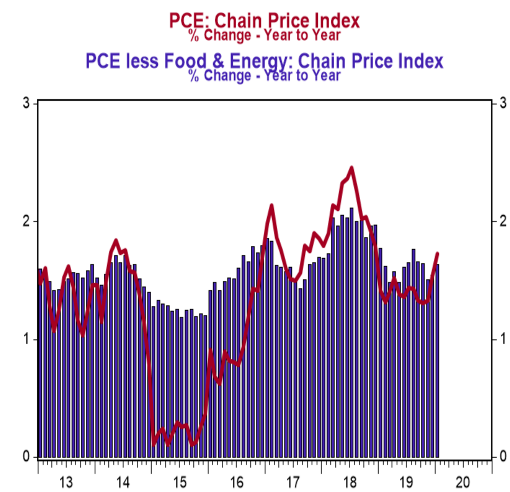
January Personal Income and Consumption

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

- Personal income rose 0.6% in January (+0.3% including downward revisions to prior months) versus a consensus expected 0.4%. Personal consumption increased 0.2% in January (+0.1% with prior revisions), lagging the consensus expected +0.3%. Personal income is up 4.0% in the past year, while spending has increased 4.5%.
- Disposable personal income (income after taxes) rose 0.6% in January and is up 4.0% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.1% in January and is up 1.7% versus a year ago. The "core" PCE deflator, which excludes food and energy, also rose 0.1% in January and is up 1.6% in the past year.
- After adjusting for inflation, "real" consumption increased 0.1% in January and is up 2.7% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Implications: Consumer started the new year – and the new decade – on a healthy note, as both income and spending moved higher in January. Personal income rose 0.6% in January, matching the largest monthly increase in more than a year. Within income, the gain was led by government transfers (January includes annual cost of living adjustments for Social Security as well as payments related to the Affordable Care Act's refundable tax credits), as well as private-sector wages and salaries. Higher incomes, in turn, continue to drive spending, which rose 0.2% in January. Spending on services led consumer purchases higher in January, in particular outlays on restaurants and hotels, while spending on goods rose as well. With spending up faster than income over the past year, some may be concerned that consumers are getting stretched, but that isn't the case. Households de-levered following the recession, bringing financial obligations (think mortgages, car loans, etc.) to near multi-decade lows as a share of after-tax income. Put simply, the strong labor market has more people working more hours for more pay, which has fueled the growth in spending. And that math - aided by the improved tax and regulatory environment that went in place in 2018 – provides a strong base for continued economic growth in 2020. One area the Fed has been keeping a keen eye on is inflation, which continues to run below its 2% target. PCE prices rose 0.1% in January and are up 1.7% in the past year. "Core" prices, which exclude the volatile food and energy sectors, also rose 0.1% in January and are up 1.6% in the past twelve months. In other words, inflation is still below but not far from the Fed's 2.0% target. While the markets are reacting to fears over the unknown brought about by the Coronavirus, strong consumers, rising wages, tame inflation, and the data on the economy continue to show steady growth. If the Fed is truly data dependent, it will stay the course and leave rates unchanged for the foreseeable future. That said, given fears regarding the Coronavirus and the Fed's tendency to cut rates at any sign of trouble, even if cutting rates will do nothing to cure a virus, we now think a rate cut on March 18th is more likely than not. On the manufacturing front, the Kansas City Fed index rose to +5 in February from -1 in January, while the Chicago PMI index increased 49.0 in February from 42.9. These reports on regional manufacturing activity follow reports from New York, Philadelphia, and Dallas in suggesting that next week's ISM manufacturing report should remain in expansion territory after spending much of late 2019 in contraction. On the housing front, pending home sales, which are contracts on existing homes, rose 5.2% in January after falling 4.3% in December. These figures suggest closings on existing homes should be roughly stable in February.

Personal Income and Spending *All Data Seasonally Adjusted*	Jan-20	Dec-19	Nov-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.6%**	0.1%	0.5%	5.0%	4.0%	4.0%
Disposable (After-Tax) Income	**0.6%**	0.1%	0.4%	4.8%	4.1%	4.0%
Personal Consumption Expenditures (PCE)	**0.2%**	0.4%	0.3%	3.6%	3.1%	4.5%
Durables	**0.5%**	-0.4%	0.7%	3.5%	1.7%	4.8%
Nondurable Goods	**-0.2%**	0.6%	0.0%	1.3%	0.2%	3.8%
Services	**0.3%**	0.4%	0.3%	4.3%	4.2%	4.7%
PCE Prices	**0.1%**	0.3%	0.1%	1.8%	1.3%	1.7%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.2%	0.1%	1.6%	1.4%	1.6%
Real PCE	**0.1%**	0.1%	0.2%	1.8%	1.8%	2.7%

Source: Bureau of Economic Analysis