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February 26, 2021 • 630.517.7756 • www.ftportfolios.com

January Personal Income and Consumption

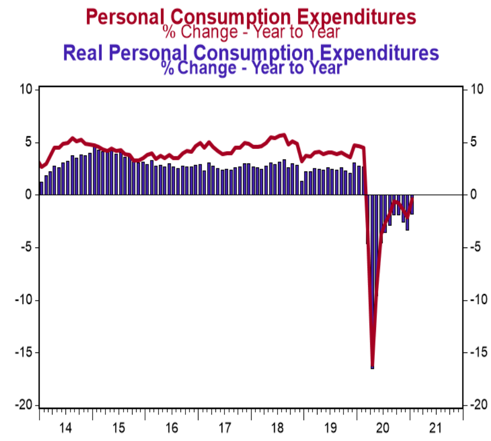
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke – Senior Economist

- Personal income surged 10.0% in January (+9.9% including revisions to prior months), beating the consensus expected gain of 9.5%. Personal consumption rose 2.4% in January (+2.2% including prior month revisions). The consensus expected an increase of 2.5%. Personal income is up 13.1% in the past year, while spending has declined 0.4%.

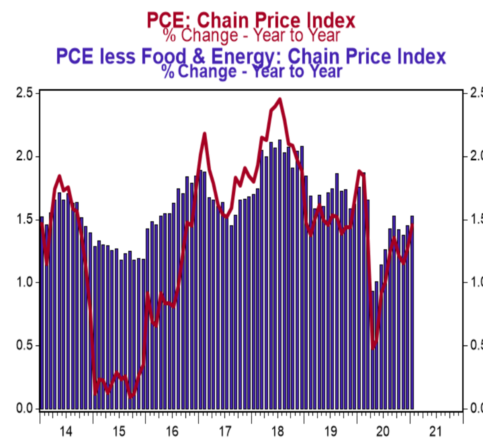
- Disposable personal income (income after taxes) rose 11.4% in January and is up 15.0% from a year ago.

- The overall PCE deflator (consumer prices) rose 0.3% in January and is up 1.5% versus a year ago. The "core" PCE deflator, which excludes food and energy, also rose 0.3% in January and is up 1.5% in the past year.

- After adjusting for inflation, "real" consumption rose 2.0% in January, but is down 1.9% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Implications: A ramp up in government spending – namely stimulus payments and supplemental unemployment benefits – pushed personal income 10.0% higher in January. In fact, the increase in government transfer payments more than accounted for the total rise in personal income for the month. Private sector wages and salaries rose 0.8% in January, but were offset by a decline in dividends. Income from wages and salaries are a far more sustainable long-term driver for the economy than government stimulus, which is really just borrowing spending activity from the future. More stimulus out of Washington D.C. is on the way, but the best economic tailwind for the economy comes not from our politicians, but from the near miraculous scientific achievements that now have COVID-19 vaccines being distributed across the country. So far, 91.7 million vaccines have been distributed in the U.S. with 68.3 million administered. Rarely does government ever under-promise and over-deliver, but in this case President Biden's goal of 100 million vaccines in 100 days will be easily achievable. Through this morning, more than 41 million doses have been administered in February alone, a pace of more than 1.5 million shots per day. It takes getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus has and will continue to be a band-aid to tidy over until the real healing takes place. Like income, spending moved higher in January, rising 2.4% in January, but remains down 0.4% from a year ago. With incomes rising faster than spending in January, the saving rate rose to 20.5%. This is lower than the peak of 33.7% last April, but still well above "normal" levels and hints at rapid gains in spending as COVID-related restrictions ease. On the inflation front, PCE prices grew 0.3% in January, are up 1.5% from a year ago, but up at a faster 2.5% annualized rate in the past six months. Core prices, which exclude food and, more importantly, the very volatile energy component, also rose 0.3% in January and are up 1.5% from a year ago. Here too inflation has accelerated of late, up 2.1% annualized over the past six months. By April, the 12-month change for PCE inflation will be well above 2.0%, because we had a temporary bout of deflation last spring due to COVID. However, we expect this inflation measure to remain at or above 2.0% well beyond this spring, as inflation starts reflecting the loose stance of monetary policy and a faster recovery in incomes, due to government assistance, than in actual production. Regardless, don't expect a faster pace of inflation to mean monetary policy will be tightening anytime soon; the Federal Reserve is perfectly fine with inflation exceeding the 2.0% target to make up for previous years when it fell short of that target. In other recent news, pending home sales, which are contracts on existing homes, declined 2.8% in January, after a 0.5% rise in December. As a result, look for a modest decline in existing home sales for February. On the manufacturing front, the Kansas City Fed Manufacturing Index, a measure of factory sentiment in that region, increased to 24 in February from 17 in January, a good sign for continued improvement in the US economy. Also on manufacturing, the Chicago Purchasing Manager Index (PMI) declined to 59.5 in February from January's reading of 63.8, which represented the highest level for the index in more than two years. These figures are consistent with a forecast of a modest increase in the ISM Manufacturing Index in February to 59.0 versus 58.7 for January.

Personal Income and Spending *All Data Seasonally Adjusted*	Jan-21	Dec-20	Nov-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**10.0%**	0.6%	-1.2%	42.7%	13.1%	13.1%
Disposable (After-Tax) Income	**11.4%**	0.6%	-1.4%	48.8%	13.9%	15.0%
Personal Consumption Expenditures (PCE)	**2.4%**	-0.4%	-0.6%	5.5%	8.5%	-0.4%
Durables	**8.4%**	-1.8%	-2.3%	17.1%	16.4%	18.6%
Nondurable Goods	**4.3%**	-1.2%	-0.6%	9.9%	7.8%	6.1%
Services	**0.7%**	0.1%	-0.2%	2.1%	7.3%	-5.3%
PCE Prices	**0.3%**	0.4%	0.0%	2.9%	2.5%	1.5%
"Core" PCE Prices (Ex Food and Energy)	**0.3%**	0.3%	0.0%	2.2%	2.1%	1.5%
Real PCE	**2.0%**	-0.8%	-0.6%	2.5%	5.8%	-1.9%

Source: Bureau of Economic Analysis