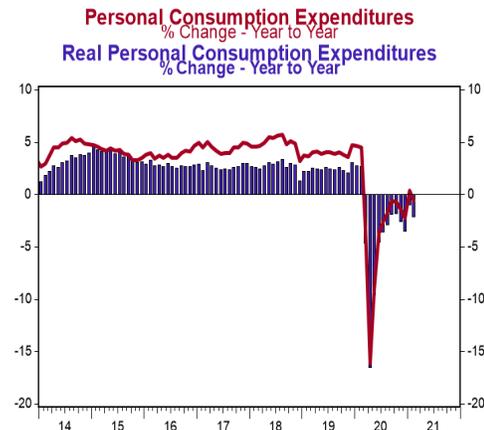


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke – Senior Economist

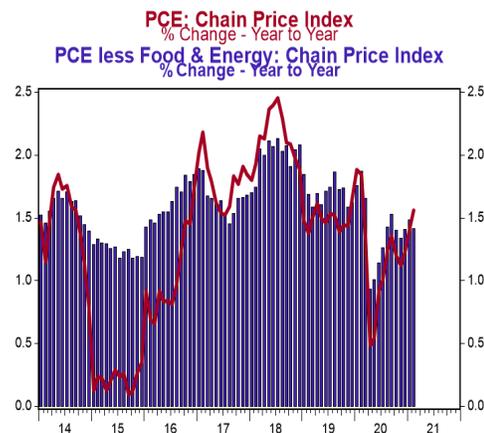
February Personal Income and Consumption

- Personal income declined 7.1% in February (-7.0% including revisions to prior months), slightly better than the consensus expected -7.2%. Personal consumption declined 1.0% in February (-0.2% including prior month revisions) versus a consensus expected -0.8%. Personal income is up 4.3% in the past year, while spending has declined 0.6%.
- Disposable personal income (income after taxes) declined 8.0% in February but is up 5.0% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in February and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in February and is up 1.4% in the past year.
- After adjusting for inflation, “real” consumption fell 1.2% in February and is down 2.1% from a year ago.

Implications: Personal income fell the most in series history (going back to the late 1950s) as the stimulus payments passed in December reached consumers in January and then fell back toward “normal” in February. That said, after a surge in January and the February plummet, personal income is still up 2.3% versus December, and up 4.3% in the past year. In fact, if you strip out government transfer payments, personal income rose 0.4% in February. The data are about to get volatile again, as \$240 billion of new checks have been paid out of the new \$1.9 trillion stimulus. We put more weight on sustainable long-term drivers for the economy than on government stimulus, which is just borrowing spending from the future. On that front, private sector wages and salaries were flat in February but are up 0.5% in the past year. We expect this number will trend higher as the U.S. economy continues to progress with vaccine efforts and states ease restrictions in light of significant improvements in the COVID data. The best tailwind for the U.S. economy is coming not from our politicians, but from the near miraculous scientific achievements that now have COVID-19 vaccines being distributed across the country. So far, 173.5 million vaccines have been distributed, with 133.3 million administered. Through yesterday, nearly 60 million doses have been administered in the month of March alone, a pace of more than 2.3 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 tide over until the real healing takes place. Like income, spending moved lower in February, down 1.0%. While some of the slowdown is likely attributable to a lack of extra checks hitting bank accounts, it was also influenced by the polar vortex which hit the central United States in February. As with income, this measure is likely to move notably higher in the coming months. With incomes falling faster than spending in February, the saving rate fell to a still elevated 13.6%. On the inflation front, PCE prices grew 0.2% in February, are up 1.6% from a year ago, but up at a faster 2.3% annualized rate in the past six months. Core prices, which exclude food and, more importantly, the very volatile energy component, rose 0.1% in February and are up 1.4% from a year ago. 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, the Kansas City Fed Manufacturing Index, a measure of factory sentiment in that region, increased to 26 in March from 24 in February, a good sign for continued improvement in the US economy, and consistent with a forecast of a modest increase in the ISM Manufacturing Index in March to 61.0 versus 60.8 for February.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-21	Jan-21	Dec-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-7.1%	10.1%	0.5%	12.0%	3.3%	4.3%
Disposable (After-Tax) Income	-8.0%	11.4%	0.6%	13.0%	2.9%	5.0%
Personal Consumption Expenditures (PCE)	-1.0%	3.4%	-0.6%	7.3%	5.5%	-0.6%
Durables	-4.7%	11.9%	-2.3%	17.7%	7.0%	17.2%
Nondurable Goods	-2.0%	6.5%	-1.6%	11.3%	6.5%	6.1%
Services	0.1%	0.9%	0.1%	4.2%	5.0%	-5.2%
PCE Prices	0.2%	0.3%	0.4%	3.8%	2.3%	1.6%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.3%	2.5%	1.6%	1.4%
Real PCE	-1.2%	3.0%	-0.9%	3.4%	3.2%	-2.1%

Source: Bureau of Economic Analysis