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January Personal Income and Consumption

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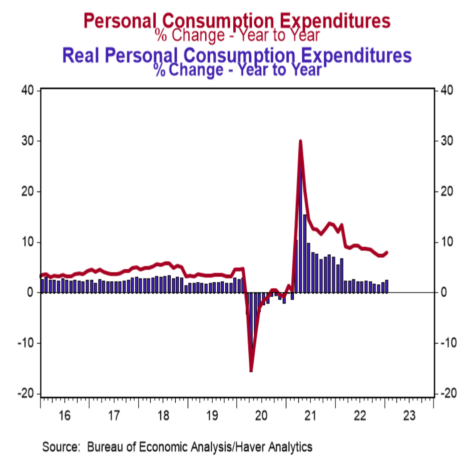
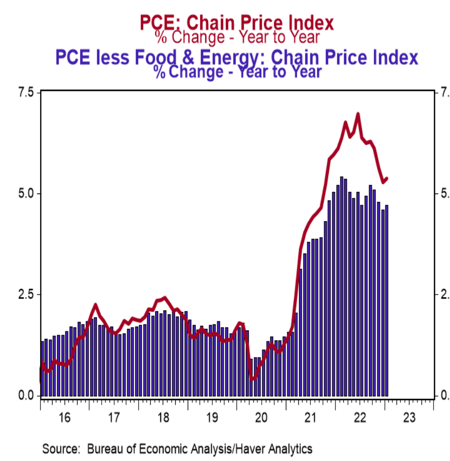
- Personal income rose 0.6% in January (+1.5% including revisions to prior months), versus a consensus expected +1.0%. Personal consumption rose 1.8% in January, beating the consensus expected +1.4%. Personal income is up 6.4% in the past year, while spending has increased 7.9%.
- Disposable personal income (income after taxes) increased 2.0% in January (+3.2% including revisions) and is up 8.4% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.6% in January, and is up 5.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, also rose 0.6% in January and is up 4.7% in the past year.
- After adjusting for inflation, "real" consumption rose 1.1% in January (+0.9% including revisions) and is up 2.4% from a year ago.





Implications: Income, spending, and inflation all rose in January, adding to the growing cache of data confirming that the Fed's job is not done. The most notable news in today's release was the 0.6% increase in PCE prices, the Fed's preferred gauge of inflation. Headline inflation looks to have peaked back in June of 2022 when it was up 7.0% on a year-ago basis, but the increase in January pushed twelve-month inflation to 5.4% from 5.3% in December. "Core" prices, which remove the volatile food and energy components, also rose 0.6% in January and are up 4.7% in the past year (up from 4.6% in December). Note that the Fed is now closely watching what it calls "SuperCore" inflation, which is services only (no goods), excluding food, energy, and housing. That also increased 0.6% in January, the largest increase in any month since late 2021. These prices are up 4.6% from a year ago, showing very little progress versus the 5.0% gain in the twelve months ending in January 2022. As we mentioned in this week's Monday Morning Outlook, the massive increase in the M2 money supply during the first two years of COVID has to make its way through the system, and that means the Fed's path is likely to involve more hikes – and a longer hold – than many expect. Although consumer spending was up a sharp 1.8% for the month, we think that won't last. Some of that was due to the 0.6% increase in prices. In addition, COVID and massive government stimulus have wreaked havoc with the normal seasonal pattern of consumer spending, with a lower share of spending in November and December, which makes January look artificially strong by comparison. The best news in the report was a 0.6% increase in personal income in January, led by private sector wages and salaries (+1.0% in January and +8.4% in the past year). However, with incomes up 6.4% in the past year while spending has risen 7.9%, the Fed will have little confidence that the current level of interest rates is dampening demand to anywhere near the level they had expected. In other recent news on the manufacturing front, the Kansas City Fed index, a measure of manufacturing activity in that region, rose to 0 in February from -1 in January. We expect soft readings from the manufacturing sector to be an ongoing theme in 2023.

Personal Income and Spending *All Data Seasonally Adjusted*	Jan-23	Dec-22	Nov-22	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.6%**	0.3%	0.4%	5.1%	6.6%	6.4%
Disposable (After-Tax) Income	**2.0%**	0.4%	0.5%	12.2%	10.6%	8.4%
Personal Consumption Expenditures (PCE)	**1.8%**	-0.1%	-0.2%	6.0%	7.4%	7.9%
Durables	**5.5%**	-2.0%	-3.2%	0.5%	4.8%	1.6%
Nondurable Goods	**1.2%**	-1.3%	-0.5%	-2.5%	0.1%	5.4%
Services	**1.3%**	0.6%	0.5%	10.0%	10.3%	10.0%
PCE Prices	**0.6%**	0.2%	0.2%	4.0%	4.1%	5.4%
"Core" PCE Prices (Ex Food and Energy)	**0.6%**	0.4%	0.2%	4.7%	5.1%	4.7%
Real PCE	**1.1%**	-0.3%	-0.3%	1.9%	3.1%	2.4%

Source: Bureau of Economic Analysis