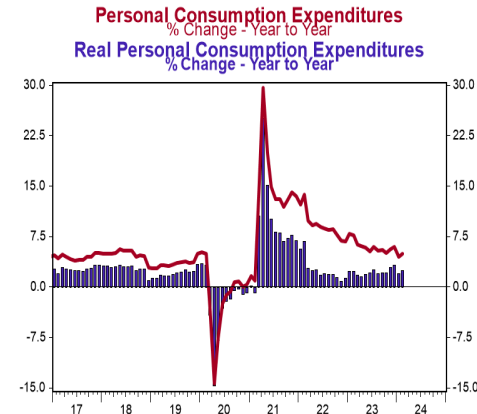


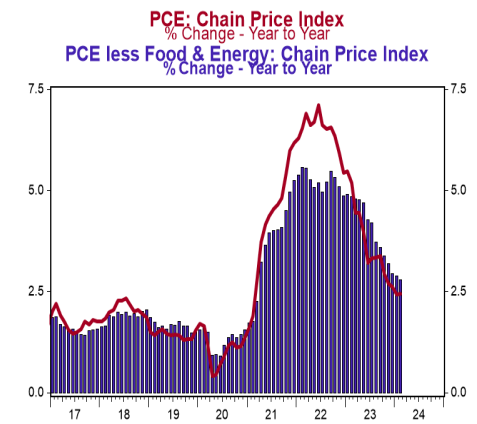
## February Personal Income and Consumption

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- Personal income rose 0.3% in February, falling short of the consensus expected +0.4%. Personal consumption rose 0.8% in February (+0.7% including revisions to prior months), beating the consensus expected +0.5%. Personal income is up 4.6% in the past year, while spending has increased 4.9%.
- Disposable personal income (income after taxes) rose 0.2% in February (+0.3% including revisions to prior months) and is up 4.1% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in February and is up 2.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.3% in February and is up 2.8% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in February and is up 2.4% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



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**Implications:** Consumers remain healthy, and inflation remains a concern. Let’s start with PCE prices – the Federal Reserve’s preferred measure of inflation – which rose 0.3% in February, bringing the twelve-month comparison to 2.5% (from 2.4% last month). If the Fed wants “confidence” and “evidence” that inflation is sustainably trending towards 2.0% before starting rate cuts, Friday’s report was not very helpful. “Core” prices, which exclude the ever-volatile food and energy categories, also rose 0.3% in February and are up 2.8% versus a year ago. The Fed has prioritized a subset of inflation dubbed the “Supercore,” which is services only (no goods), excluding food, energy, and housing. That measure rose 0.2% in February and is up 3.3% versus a year ago. No matter which measure you choose, they all remain above the Fed’s 2.0% target and, given ongoing shipping disruptions in the Red Sea as well as unexpected events like the Francis Scott Key Bridge collapse near Baltimore, we would not be surprised to see volatility in the inflation numbers in the months ahead. Looking toward the consumer in February shows incomes and spending both on the rise. Personal income rose 0.3% in February following an outsized 1.0% gain in January (lifted by annual cost-of-living adjustments to social security and a jump in dividend income). Income gains in February were led by private-sector wages and salaries, which rose 0.8% on the month and are up 5.4% in the past year. Meanwhile, government pay rose 0.7% in February and is up 8.1% in the past year, the largest twelve-month increase in more than three decades. We don’t think the growth in government pay is sustainable or good for the overall US economy. Wage gains were partially offset in February by a drop in dividend income from January’s elevated numbers. Consumer spending rose a robust 0.8% in February, with rising spending on both goods and services. The 1.4% gain in durable goods purchases was the largest single monthly gain since January of last year, as consumers picked up spending on motor vehicles and parts. That said, spending on goods is up a modest 0.8% in the past year (which is less than inflation), as consumption has shifted toward the service side of the economy. Spending on services rose 0.9% in February – led by financial services and insurance – and are up 6.9% in the past year. Expect services to continue to lead the charge in 2024, but with growth tempering as the economy slows. In other recent news on the housing front, pending home sales, which are contracts on existing homes, rose 1.6% in February after declining 4.7% in January. Plugging these figures into our model suggests existing home sales, which are counted at closing, will decline in March.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-24	Jan-24	Dec-23	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.3%</b>	1.0%	0.3%	6.6%	5.3%	4.6%
<b>Disposable (After-Tax) Income</b>	<b>0.2%</b>	0.4%	0.3%	3.9%	3.8%	4.1%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.8%</b>	0.2%	0.6%	6.2%	5.8%	4.9%
<b>Durables</b>	<b>1.4%</b>	-2.5%	1.1%	-0.4%	0.1%	-0.4%
<b>Nondurable Goods</b>	<b>0.1%</b>	-0.9%	0.2%	-2.4%	-0.7%	1.6%
<b>Services</b>	<b>0.9%</b>	1.0%	0.6%	10.2%	9.1%	6.9%
<b>PCE Prices</b>	<b>0.3%</b>	0.4%	0.1%	3.4%	2.5%	2.5%
<b>“Core” PCE Prices (Ex Food and Energy)</b>	<b>0.3%</b>	0.5%	0.2%	3.5%	2.9%	2.8%
<b>Real PCE</b>	<b>0.4%</b>	-0.2%	0.5%	2.7%	3.3%	2.4%

Source: Bureau of Economic Analysis