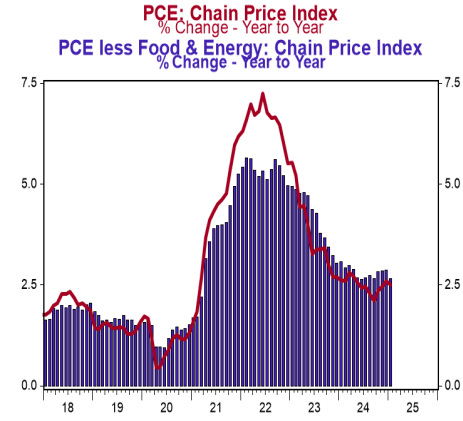


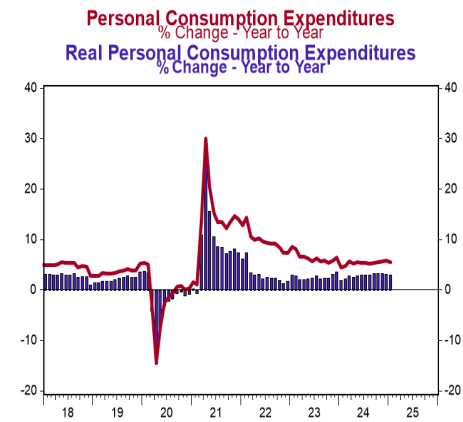
January Personal Income and Consumption

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

- Personal income surged 0.9% in January (+0.7% including revisions to prior months), easily beating the consensus expected +0.4%. Personal consumption declined 0.2% (unchanged including revisions to prior months), lagging the consensus expected +0.2%. Personal income is up 4.6% in the past year, while spending has increased 5.6%.
- Disposable personal income (income after taxes) rose 0.9% in January and is up 4.4% from a year ago.
- The overall PCE deflator (consumer prices) increased 0.3% in January and is up 2.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.3% in January and is up 2.6% in the past year.
- After adjusting for inflation, “real” consumption declined 0.5% in January but remains up 3.0% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



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Implications: Hold off on income and spending for a moment. A report that usually gets little notice – an “advance” report on international trade – showed a huge spike in imports of industrial supplies in January and, therefore, the trade deficit. Even assuming a reversal of the trade deficit in February and March (back down to the December level), international trade could be a very large drag on Real GDP growth in Q1, potentially resulting in negative growth for the quarter. Meanwhile, in spite of a spike in income, consumer spending was soft in January while inflation was still running hot. Personal income surged 0.9% in January and is up 4.6% in the past year. However the gain in January was largely due to cost-of-living adjustments to social security benefits, which pushed government transfers higher. Government benefit payments to individuals are up 7.6% in the past year; excluding COVID, that’s near the largest 12-month increase in more than a decade. Meanwhile, pay in the public sector rose 0.5% in January and is up 6.1% in the past year, versus private-sector wages and salaries, which are up 0.4% on the month and are up 4.2% in the past year. We don’t think the growth in government pay – or massive government deficit spending – is either sustainable or good for the US economy, which is why we’re hoping recent policy changes in DC represent a shift in thinking on the growth of government. Long term, it’s the growth in private-sector earnings that’ll better sustain the economy. In spite of higher income in January, personal consumption declined 0.2% (unchanged from December when including upward revisions to prior months). Spending on services rose 0.3% in January and is up a strong 6.4% from a year ago, but goods spending fell 1.2% in January, fully offsetting gains elsewhere. The drop in goods spending was likely at least partly due to unusually cold winter weather plus fires in southern California, and should reverse for February. On the inflation front, PCE prices increased 0.3% in January, are up 2.5% in the past year, close to the 2.6% increase in the year ending January 2024, which means the Fed made virtually no progress in the inflation flight over the past year. “Core” prices (which exclude food and energy) also rose 0.3% in January and are up 2.6% versus a year ago. The Fed has signaled plans to pause on rate cuts for the foreseeable future, but risks remain that activity in Washington could translate to a pullback in government spending in 2025 and beyond, which may cause short-term economic pain before longer term gain. In other recent news, pending home sales, which are contracts on existing homes, fell 4.6% in January following a 4.1% decline in December, suggesting another drop in existing home sales (counted at closing) in February.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-25	Dec-24	Nov-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.9%	0.4%	0.3%	6.7%	5.6%	4.6%
<i>Disposable (After-Tax) Income</i>	0.9%	0.4%	0.3%	6.7%	5.4%	4.4%
Personal Consumption Expenditures (PCE)	-0.2%	0.8%	0.5%	5.0%	5.3%	5.6%
<i>Durables</i>	-3.0%	1.3%	2.3%	1.9%	2.5%	4.0%
<i>Nondurable Goods</i>	-0.2%	1.2%	0.0%	4.2%	2.5%	3.6%
<i>Services</i>	0.3%	0.7%	0.4%	5.8%	6.5%	6.4%
PCE Prices	0.3%	0.3%	0.1%	2.9%	2.6%	2.5%
<i>“Core” PCE Prices (Ex Food and Energy)</i>	0.3%	0.2%	0.1%	2.4%	2.6%	2.6%
Real PCE	-0.5%	0.5%	0.4%	2.0%	2.6%	3.0%

Source: Bureau of Economic Analysis