

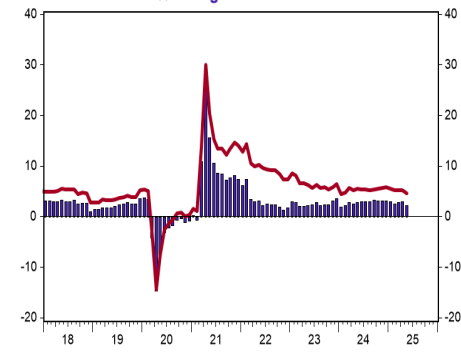
May Personal Income and Consumption

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- Personal income fell 0.4% in May (-0.6% including revisions to prior months), widely lagging the consensus expected +0.3%. Personal consumption declined 0.1% (-0.4% including revisions to prior months), versus a consensus expected +0.1%. Personal income and spending are both up 4.5% in the past year.
- Disposable personal income (income after taxes) fell 0.6% in May but is up 4.1% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.1% in May and is up 2.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in May and is up 2.7% in the past year.
- After adjusting for inflation, “real” consumption fell 0.3% in May but is up 2.2% from a year ago.

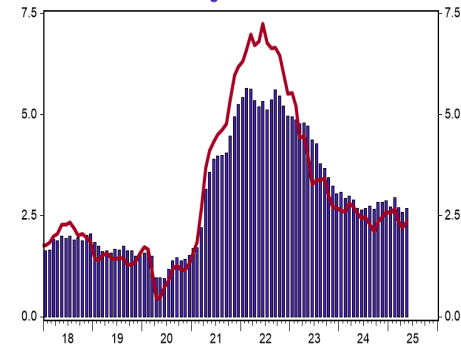
Implications: After a hot start to 2025, both incomes and spending surprised to the downside in May. Personal income declined 0.4%, lagging even the most pessimistic forecasts, while prior months data were revised lower as well. However, the details show a better picture than the headline suggests. Private-sector wages and salaries rose 0.4% in May, but were more than fully offset by a decline in government transfer payments related to social security, and a drop in farm income. Both of those declines may sound concerning, but in reality May was simply a return back toward more “normal” levels following large one-time payments related to the Social Security Fairness Act – one of the last items signed into law by the outgoing Biden administration, which increased benefits to public sector workers not typically covered by Social Security – and the Emergency Commodity Assistance Program, which made payments to farmers producing certain commodities to help offset higher input costs and lower sale prices. These were never reliable (or desirable) long-term sources of income like wages and salaries, so while incomes were lower in May than in April, the mix of where spending power came from improved. What was more disappointing was the 0.1% decline in personal consumption, where spending on services rose 0.1% while goods spending declined 0.8%. But even here the drop comes with a caveat. Nearly the entire decline in goods spending came from a drop in motor vehicles and parts, a category where consumers picked up spending to front-run the tariffs and have since pulled back as tariffs went into place. In addition, lower gasoline prices brought down outlays on energy goods. Within services, the largest increases came in housing & utilities as well as health care. On the inflation front, PCE prices rose 0.1% in May while the twelve-month change increased to 2.3% from a 2.1% reading last month. It is important to remember that inflation readings were very modest between May and November of 2024, so even modest monthly increases in inflation today may push year-to-year readings higher. That does not mean that inflation is a rising threat, though we wouldn’t be surprised to see arguments from some for the Fed to hold rates steady until this subsides. “Core” prices (which exclude food and energy) rose 0.2% in May and are up 2.7% versus a year ago. The Fed is unlikely to move at the July meeting, as it continues to fret about potential inflationary impacts from tariffs and continued uncertainty surrounding policy out of Washington, but we think the Fed will resume rate cuts in the later part of 2025. In other recent news on the housing front, pending home sales, which are contracts on existing homes, rose 1.8% in May following a 6.3% decline in April, suggesting existing home sales (counted at closing) will dip slightly in June. On the manufacturing front, the Kansas City Fed Manufacturing Index, a measure of factory sentiment in that region, rose to a still weak reading of -2 in June from -3 in May.

Personal Consumption Expenditures
 % Change - Year to Year
 Real Personal Consumption Expenditures
 % Change - Year to Year



Source: Bureau of Economic Analysis/Haver Analytics

PCE: Chain Price Index
 % Change - Year to Year
 PCE less Food & Energy: Chain Price Index
 % Change - Year to Year



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-25	Apr-25	Mar-25	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-0.4%	0.7%	0.6%	3.9%	5.3%	4.5%
Disposable (After-Tax) Income	-0.6%	0.8%	0.6%	3.5%	5.0%	4.1%
Personal Consumption Expenditures (PCE)	-0.1%	0.2%	0.7%	3.1%	3.6%	4.5%
Durables	-1.8%	0.4%	3.8%	10.0%	0.5%	4.3%
Nondurable Goods	-0.2%	0.0%	-0.4%	-2.3%	2.8%	2.4%
Services	0.1%	0.2%	0.5%	3.7%	4.3%	5.3%
PCE Prices	0.1%	0.1%	0.0%	1.1%	2.8%	2.3%
“Core” PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.1%	1.7%	2.9%	2.7%
Real PCE	-0.3%	0.1%	0.7%	2.0%	0.8%	2.2%

Source: Bureau of Economic Analysis