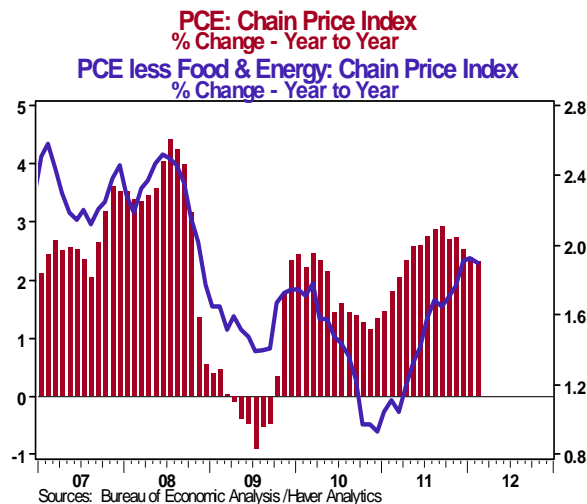
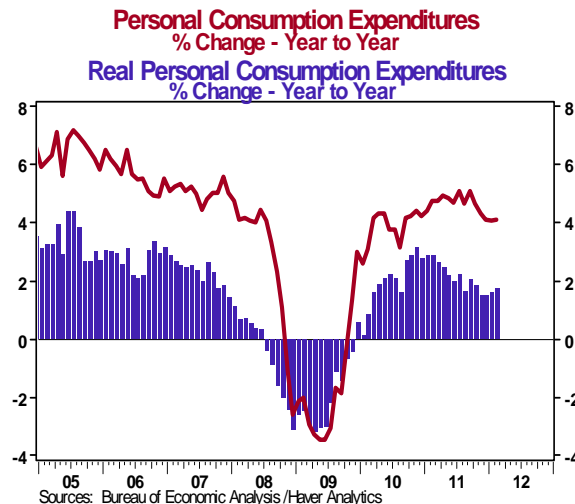


## February Personal Income and Consumption

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- Personal income increased 0.2% in February (0.1% including revisions to prior months), falling short of the consensus expected gain of 0.4%. Personal consumption rose 0.8% in February (1.0% including revisions to prior months), beating the consensus expected gain of 0.6%. In the past year, personal income is up 3.2% while spending is up 4.1%.
- Disposable personal income (income after taxes) was up 0.2% in February and is up 2.6% from a year ago. Private sector wages and salaries led the way in February and are up 5.4% in the past year. Government transfer payments were up 0.1% in February and up 1.0% from a year ago.
- The overall PCE deflator (consumer inflation) was up 0.3% in February and 2.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in February and is up 1.9% since last year.
- After adjusting for inflation, “real” consumption was up 0.5% in February (0.7% including revisions to prior months), and is up 1.8% from a year ago.

**Implications:** The American consumer keeps buying. “Real” (inflation-adjusted) personal consumption increased 0.5% in February and 0.7% including upward revisions to prior months. Even if real spending is unchanged in March, which is a pessimistic assumption, it will be up at a 2.1% annual rate in Q1 compared to the Q4 average. Some analysts may question how this can keep going. Spending is up faster than income in the past year. What these analysts are missing is that households’ financial obligations – recurring payments like mortgages, rent, car loans/leases, as well as other debt service – are now the smallest share of income since 1984. As a result, consumers can lift their spending faster than their income. Meanwhile, government transfers have become only a minor factor behind consumption growth. Private sector wages and salaries are up 5.4% in the past year, while transfer payments are up only 1%. Continued job gains and wage increases should support further gains in consumer spending from here. On the inflation front, overall consumption prices are up 2.3% in the past year, above the Fed’s supposed target of 2%. “Core” prices are up 1.9% from a year ago and have risen at a 2% rate in the past three months. Given healthy spending patterns and inflation already at their target, the Federal Reserve has no justification for another round of quantitative easing. In other news this morning, the Chicago PMI, a measure of manufacturing activity in that region, slipped to a still high 62.2 in March from 64.0 in February.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-12	Dec-11	Nov-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.2%</b>	0.2%	0.4%	3.4%	3.2%	3.2%
<b>Disposable (After-Tax) Income</b>	<b>0.2%</b>	0.0%	0.4%	2.4%	2.5%	2.6%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.8%</b>	0.4%	0.2%	5.5%	4.7%	4.1%
<b>Durables</b>	<b>1.6%</b>	1.4%	0.8%	16.5%	17.3%	6.5%
<b>Nondurable Goods</b>	<b>0.9%</b>	0.7%	-0.5%	4.6%	4.0%	4.3%
<b>Services</b>	<b>0.6%</b>	0.1%	0.3%	4.1%	3.0%	3.7%
<b>PCE Prices</b>	<b>0.3%</b>	0.2%	0.1%	2.4%	1.7%	2.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.2%	0.2%	2.0%	1.5%	1.9%
<b>Real PCE</b>	<b>0.5%</b>	0.2%	0.1%	3.0%	2.9%	1.8%

Source: Bureau of Economic Analysis