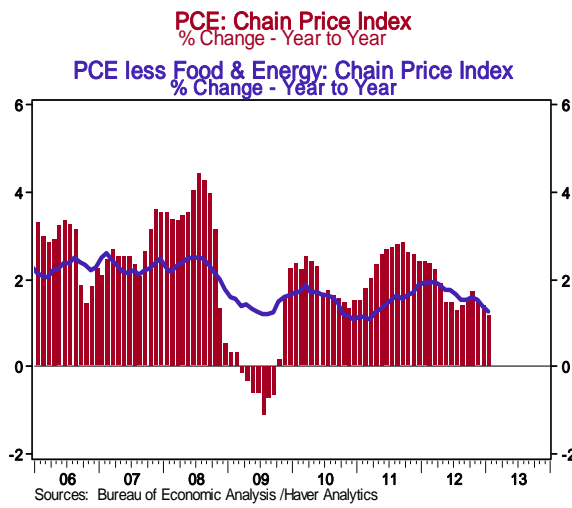
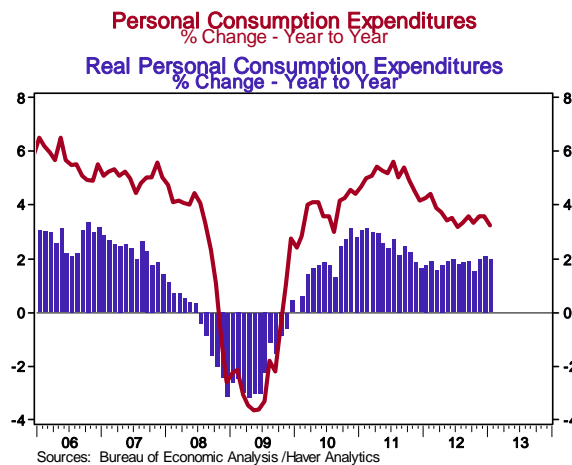


January Personal Income and Consumption

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- Personal income fell 3.6% in January, coming in well below the consensus expected decline of 2.4%. Personal consumption was up 0.2%, matching consensus expectations. In the past year, personal income is up 2.2% while spending is up 3.2%.
- Disposable personal income (income after taxes) fell 4.0% in January but is up 1.8% from a year ago. The lion's share of the decline in January was due to dividends. Private sector wages and salaries also fell.
- The overall PCE deflator (consumer inflation) was unchanged in January but up 1.2% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in January and is up 1.3% in the past year.
- After adjusting for inflation, "real" consumption increased 0.1% in January and is up 2.0% from a year ago.

Implications: Personal income fell in January by the most in twenty years, but this is no big surprise. Back in December 1992, personal income jumped 3.4% in anticipation of higher tax rates under President Clinton. There was a huge payback the following month as personal income fell 3.7%. The same thing happened in the last two reports. In anticipation of higher tax rates on both regular income and dividends, personal income surged 2.6% in December and then dropped 3.6% in January. In particular, dividends surged 33% in December and then dropped 35% in January. Private wages and salaries declined 0.8% in January after surging 0.9% in December, as some firms paid normal January bonuses one month early. However, despite the artificially depressed level of income in January, it's still up 2.2% versus a year ago, consistent with the plow-horse like growth we have been seeing in the economy. Look for solid growth in income for February. Consumers saw through these tax-related contortions in the timing of income and didn't seem to let it affect their behavior: consumer spending was up 0.1% in December and 0.2% in January. "Real" (inflation-adjusted) spending was up 0.1% in January and is up 2% versus a year ago. The best news for the economy was that inflation remains low for the time being. The Federal Reserve's favorite measure of inflation, personal consumption prices, was unchanged in January and up only 1.2% from a year ago, still noticeably lower than the Fed's 2% target. Core PCE prices were up 0.1% in January and up 1.3% from a year ago. However, given the loose stance of monetary policy, look for inflation to move above the Fed's target by late 2013.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-13	Dec-12	Nov-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-3.6%	2.6%	1.0%	-0.4%	0.9%	2.2%
Disposable (After-Tax) Income	-4.0%	2.7%	1.0%	-1.5%	0.3%	1.8%
Personal Consumption Expenditures (PCE)	0.2%	0.1%	0.4%	2.7%	3.5%	3.2%
Durables	-0.8%	1.0%	2.8%	12.8%	10.2%	5.4%
Nondurable Goods	0.0%	-0.3%	-1.0%	-4.8%	3.1%	2.1%
Services	0.4%	0.1%	0.4%	3.8%	2.6%	3.3%
PCE Prices	0.0%	0.0%	-0.2%	-0.6%	1.4%	1.2%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.1%	1.0%	0.9%	1.3%
Real PCE	0.1%	0.1%	0.5%	3.3%	2.1%	2.0%

Source: Bureau of Economic Analysis