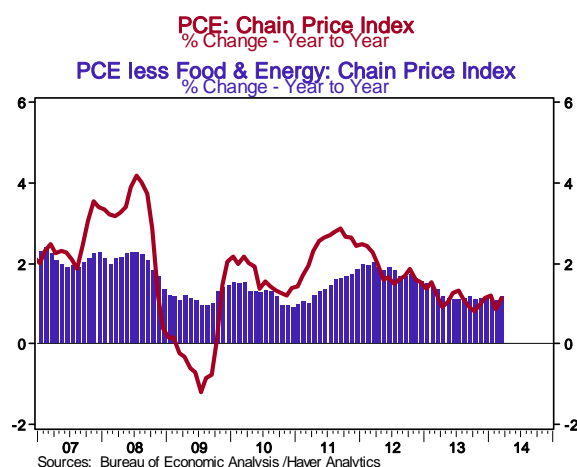
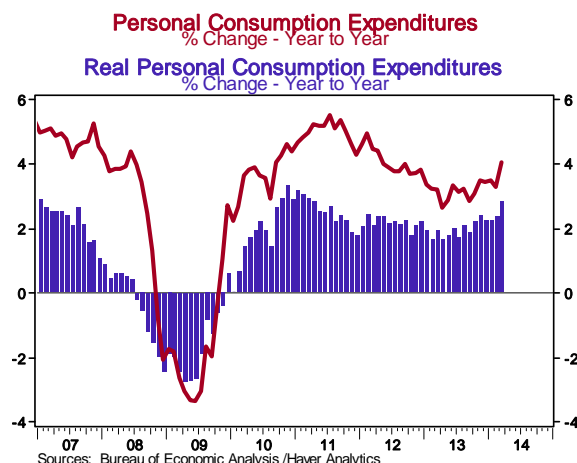


March Personal Income and Consumption

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- Personal income increased 0.5% in March, beating the consensus expected 0.4% gain. Personal consumption rose 0.9%, easily beating the consensus expected gain of 0.6%. Personal income is up 3.4% in the past year, while spending is up 4.0%.
- Disposable personal income (income after taxes) increased 0.5% in March and is up 3.3% from a year ago. The gain in March was led by private sector wages & salaries.
- The overall PCE deflator (consumer prices) increased 0.2% in March and is up 1.1% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in March and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption increased 0.7% in March and is up 2.9% from a year ago.

Implications: As the weather returned toward normal, consumers came out charging. Spending surged 0.9% in March. With the exception of one month affected by cash-for-clunkers back in 2009, this was the largest gain since 2005. Income should not pose a problem for shoppers. Personal income increased 0.5% in March and is up 3.4% from a year ago. Private-sector wages & salaries rose 0.7% and are up 4.3% from a year ago, outpacing the 3.9% gain in government transfers (which includes the impact of introducing Obamacare). We expect both income and spending to keep growing at a healthy clip. Job growth continues and should show some acceleration in April (see our forecast below). Meanwhile, as unemployment gradually declines, employers will offer higher wages. In addition, consumers’ financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve’s favorite measure of inflation, the personal consumption price index, was up 0.2% in March, the same as “core” consumption prices, which exclude food and energy. Overall consumption prices and core prices are up 1.1% and 1.2%, respectively, in the past year, both below the Fed’s 2% target. We think inflation will be approaching the Fed’s 2% target by year end, but the Fed is in no hurry to raise short-term interest rates. In other news this morning, initial claims for unemployment insurance increased 14,000 last week to 344,000. Continuing claims increased 91,000 to 2.77 million. Plugging all these figures into our payroll models – both claims and today’s data on consumer spending – puts our final forecast for April job gains at 231,000 nonfarm, 232,000 for the private sector. After getting de-iced this spring, the Plow Horse is back to a trot.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-14	Feb-14	Jan-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.4%	0.4%	5.3%	2.9%	3.4%
Disposable (After-Tax) Income	0.5%	0.4%	0.4%	5.3%	2.5%	3.3%
Personal Consumption Expenditures (PCE)	0.9%	0.5%	0.2%	6.6%	5.3%	4.0%
Durables	2.6%	1.1%	-0.6%	12.7%	4.3%	4.2%
Nondurable Goods	0.8%	0.4%	-0.9%	1.1%	1.5%	2.5%
Services	0.7%	0.4%	0.7%	7.6%	6.8%	4.6%
PCE Prices	0.2%	0.1%	0.1%	1.5%	1.3%	1.1%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.1%	1.5%	1.4%	1.2%
Real PCE	0.7%	0.4%	0.1%	5.1%	4.0%	2.9%

Source: Bureau of Economic Analysis