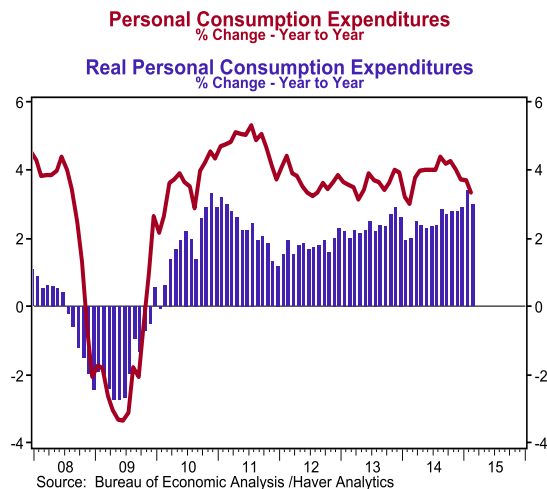


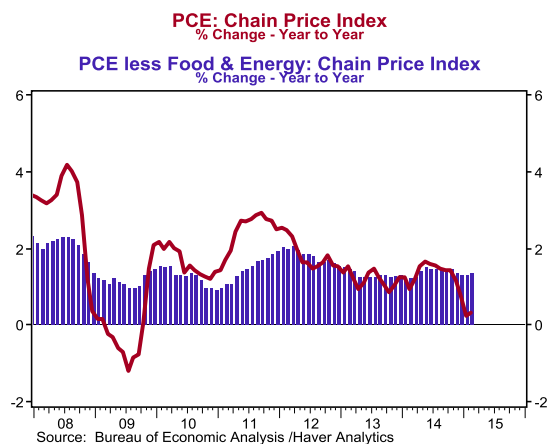
## February Personal Income and Consumption

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- Personal income increased 0.4% in February (+0.5% including revisions to prior months). The consensus expected a gain of 0.3%. Personal consumption rose 0.1% in February. The consensus expected an increase of 0.2%. Personal income is up 4.5% in the past year, while spending is up 3.3%.
- Disposable personal income (income after taxes) increased 0.4% in February, was up 0.5% including revisions to prior months, and is up 4.3% from a year ago. The gain in February was led by dividend income and private sector wages & salaries.
- The overall PCE deflator (consumer prices) increased 0.2% in February and is up 0.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in February and is up 1.4% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in February but is up 3.0% from a year ago.



**Implications:** Consumer spending rose less than expected in February, largely due to bad winter weather. However, incomes keep growing and should translate into faster spending in the months ahead. Payrolls are up more than three million in the past twelve months and wage growth is starting to accelerate as well. As a result, private-sector wages & salaries are up a robust 5.1% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.4% in February and is up 4.5% in the past year, noticeably faster than the 3.3% gain in consumer spending. This is why consumers have enough income growth to keep on lifting their spending without getting into financial trouble. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5.9%, largely driven by Obamacare; Medicaid spending is up 11.7% versus a year ago. However, outside Medicaid, government transfers are up a more tepid 4.5% in the past year and unemployment compensation is very close to the lowest level since 2007. The bad news is that taken all together, government transfer payments – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp. – don’t seem to be falling back to where they were prior to the Panic of 2008, when they were roughly 14% of income. In early 2010, they peaked at 18%. Now they are down to 17%, but not falling any further. Redistribution hurts growth because it reallocates resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy. Plugging today’s data into our models suggests “real” (inflation-adjusted) personal consumption expenditures grew at a 2% annual rate in Q1 and overall real GDP grew at a 1% annual rate. The PCE deflator, the Fed’s favorite measure of consumer inflation, rose 0.2% in February, the first gain since October. Although that measure is only up 0.3% from a year ago, it’s been held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.4% from a year ago, not far below the Fed’s 2% inflation target. Now that energy prices have stopped falling, look for overall inflation to move up toward “core” inflation over the rest of the year. As a result, we still believe the Fed will start raising rates in June. In other news, pending home sales, which are contracts on existing homes, increased 3.1% in February following a 1.2% gain in January. These figures signal that existing home sales, which are counted at closing, will be up about 2% in March.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-15	Jan-15	Dec-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.4%	0.4%	0.3%	4.6%	4.2%	4.5%
<b>Disposable (After-Tax) Income</b>	0.4%	0.5%	0.3%	4.8%	3.9%	4.3%
<b>Personal Consumption Expenditures (PCE)</b>	0.1%	-0.2%	-0.2%	-1.2%	1.5%	3.3%
<b>Durables</b>	-1.0%	0.4%	-1.4%	-8.0%	-2.8%	4.8%
<b>Nondurable Goods</b>	0.4%	-2.5%	-1.1%	-12.1%	-6.8%	-1.3%
<b>Services</b>	0.2%	0.4%	0.3%	3.8%	5.1%	4.7%
<b>PCE Prices</b>	0.2%	-0.4%	-0.2%	-2.0%	-1.1%	0.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.1%	0.1%	0.0%	0.9%	1.0%	1.4%
<b>Real PCE</b>	-0.1%	0.2%	0.1%	0.8%	2.6%	3.0%

Source: Bureau of Economic Analysis