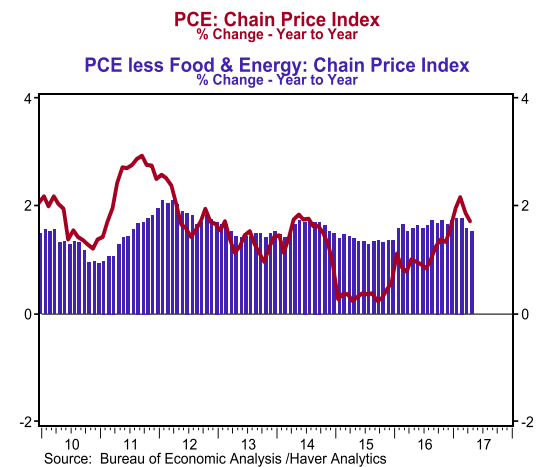
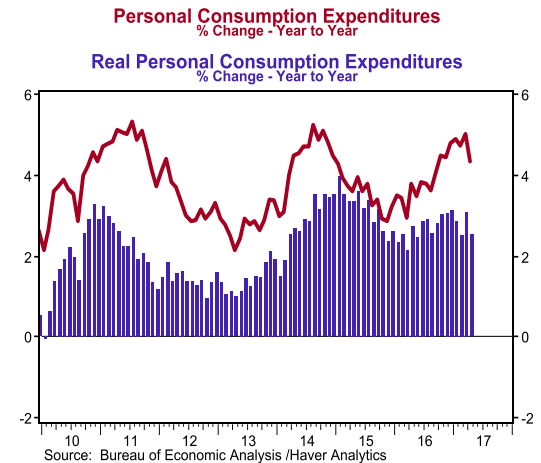


April Personal Income and Consumption

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- Personal income and personal consumption both increased 0.4% in April, matching consensus expectations. Personal income is up 3.6% in the past year, while spending is up 4.3%.
- Disposable personal income (income after taxes) increased 0.4% in April and is up 3.7% from a year ago. The gain in April was led by private sector wages & salaries.
- The overall PCE deflator (consumer inflation) increased 0.2% in April and is up 1.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in April and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in April and is up 2.6% from a year ago.

Implications: Good news for consumers. Rising wages pushed incomes higher to start the second quarter, while spending increased the most for any month so far this year. Paired with strong gains in January and February, incomes are showing the strongest start to a year since 2014. Adjusting for rising prices in April, “real” (inflation-adjusted) consumer spending was up a healthy 0.2%. And the best news from today’s report is that private sector wages and salaries accounted for almost all of the increase in income, while government redistribution was unchanged after rising for four consecutive months. If President Trump wants faster growth, he needs to slow the growth of (or outright reduce!) government benefits. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they’re around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens work incentives. Along with the rising incomes in April, spending ticked up as well. Spending on goods rose 0.7%, and spending on services increased 0.3%. As always, we like to take a step back and look at the trend. While spending growth has outpaced income over the past year, incomes are up at a 4.2% annual rate in the past three months compared to a 3.1% pace for spending. Meanwhile, the financial obligations ratio - which compares debt and other recurring payments to income – is near the lowest levels seen in thirty years. On the inflation front, the PCE deflator rose 0.2% in April and is up 1.7% in the past year. By contrast, a year ago, in April 2016, the 12-month change for prices was only 1.0%; in April 2015, it was up a meager 0.2%. In other words, inflation has been accelerating. And it’s not just an energy story. “Core” prices, which exclude food and energy, also increased 0.2% in April, and are up 1.5% from a year ago. We expect the PCE deflator will continue to hover around the Fed’s 2% inflation targets in the month ahead and, along with continued employment growth, will give the Fed a green light for additional rate hikes and the start of balance sheet normalization later this year. In housing news this morning, the national Case-Shiller Index, which measures home prices, increased 0.3% in March and was up 5.8% from a year ago, an acceleration from the 5.1% gain the year ending in March 2016. Price gains in the past 12 months were led by Seattle and Portland, with the slowest gains in New York City and Washington, DC.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-17	Mar-17	Feb-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.2%	0.5%	4.2%	3.4%	3.6%
Disposable (After-Tax) Income	0.4%	0.2%	0.4%	4.2%	3.5%	3.7%
Personal Consumption Expenditures (PCE)	0.4%	0.3%	0.1%	3.1%	3.6%	4.3%
Durables	0.9%	-0.4%	0.2%	2.8%	0.9%	4.1%
Nondurable Goods	0.6%	-0.2%	-0.2%	0.6%	3.9%	3.9%
Services	0.3%	0.6%	0.1%	4.0%	4.0%	4.5%
PCE Prices	0.2%	-0.2%	0.1%	0.4%	1.6%	1.7%
"Core" PCE Prices (Ex Food and Energy)	0.2%	-0.1%	0.2%	0.8%	1.4%	1.5%
Real PCE	0.2%	0.5%	-0.1%	2.8%	2.0%	2.6%

Source: Bureau of Economic Analysis