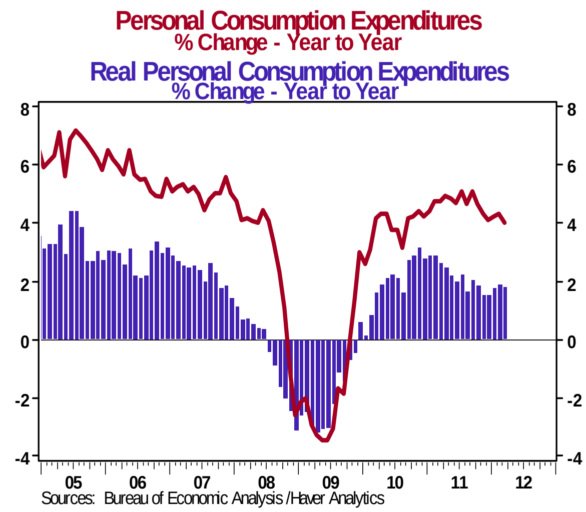
First Trust DATAWATCH
April 30, 2012 • 630.517.7756 • www.ftportfolios.com

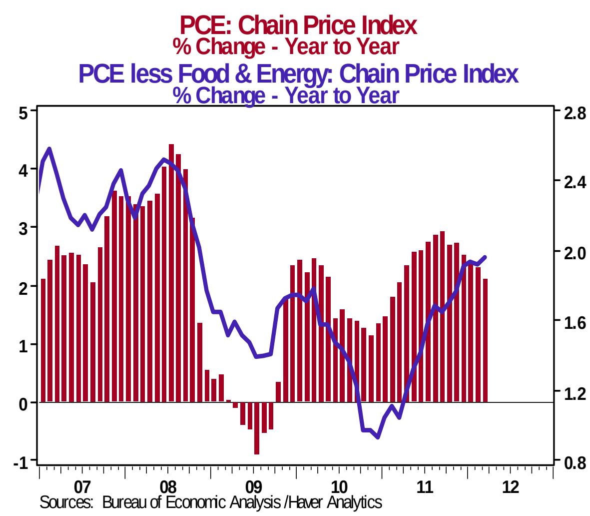
March Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Personal income increased 0.4% in March (0.5% including revisions to prior months), beating the consensus expected gain of 0.3%. Personal consumption rose 0.3% in March (0.5% including revisions to prior months), versus a consensus expected gain of 0.4%. In the past year, personal income is up 3.2% while spending is up 4.0%.
- Disposable personal income (income after taxes) was up 0.4% in March and is up 2.8% from a year ago. Private sector wages and salaries led the way in March and are up 5.3% in the past year. Government transfer payments are up 0.9% from a year ago.
- The overall PCE deflator (consumer inflation) was up 0.2% in March and 2.1% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.2% in March and is up 2.0% since last year.
- After adjusting for inflation, "real" consumption was up 0.1% in March (0.2% including revisions to prior months), and is up 1.8% from a year ago.



Implications: Despite what you may hear, the American consumer keeps buying. In fact, spending has accelerated of late. Personal consumption is up 4% from a year ago, but up at a 6.8% annual rate in the past three months. Some analysts may question how this can keep going. Spending is up faster than income in the past year. What they're 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 these obligations diminish consumers can lift spending faster than income. Meanwhile, government transfers have become only a minor factor behind consumption growth. Private sector wages and salaries are up 5.3% in the past year, while transfer payments are up only 0.9%. Continued job gains and wage increases should support further gains in consumer spending from here. On the inflation front, overall consumption prices are up 2.1% in the past year, slightly above the Fed's supposed target of 2%. The Fed's favorite gauge of inflation – core PCE, which excludes food and energy – is up 2% from a year ago, the first time at 2% or more since late 2008. 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 56.2 in April from 62.2 in March, mirroring the weakness seen in the Empire State index and Philly Fed index. However, in all three surveys the sub-index for employment increased in April.



Personal Income and Spending *All Data Seasonally Adjusted*	Mar-12	Feb-12	Jan-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	0.3%	0.3%	3.9%	3.7%	3.2%
Disposable (After-Tax) Income	**0.4%**	0.2%	0.1%	3.0%	3.0%	2.8%
Personal Consumption Expenditures (PCE)	**0.3%**	0.9%	0.5%	6.8%	4.2%	4.0%
Durables	**-0.3%**	2.0%	1.5%	13.6%	11.2%	6.9%
Nondurable Goods	**0.9%**	1.0%	1.0%	12.3%	4.4%	4.5%
Services	**0.1%**	0.6%	0.2%	3.8%	3.0%	3.3%
PCE Prices	**0.2%**	0.3%	0.2%	3.1%	1.9%	2.1%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.1%	0.2%	2.1%	1.9%	2.0%
Real PCE	**0.1%**	0.5%	0.3%	3.6%	2.3%	1.8%

Source: Bureau of Economic Analysis