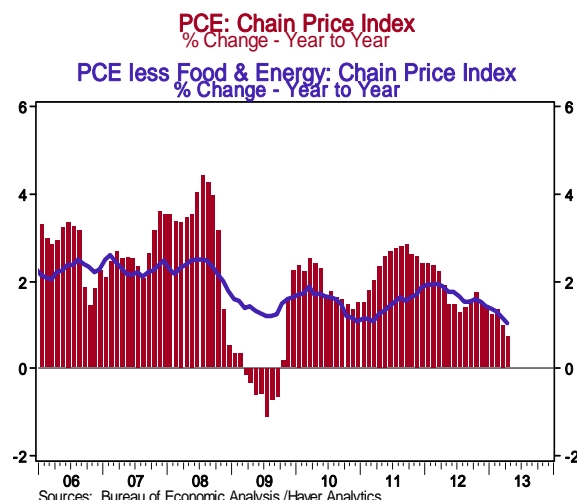
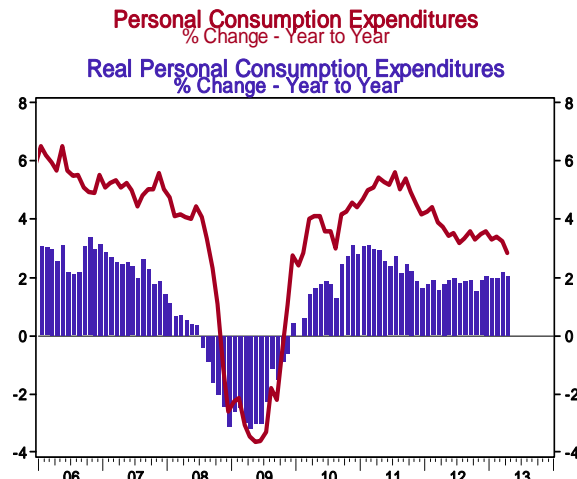


April Personal Income and Consumption

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- Personal income was unchanged in April, but up 0.3% including revisions to prior months. The consensus expected a gain of 0.1%. Personal consumption declined 0.2% (-0.1% including revisions to prior months), coming in below the consensus expected no change. In the past year, both personal income and spending are up 2.8%.
- Disposable personal income (income after taxes) declined 0.1% in April but is up 1.7% from a year ago. The decline in income was primarily driven by government transfer payments and farm income. Private-sector wages & salaries were up slightly.
- The overall PCE deflator (consumer prices) declined 0.3% in April, but is up 0.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in April but up 1.1% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in April and is up 2.1% from a year ago.

Implications: Still no evidence the end of the payroll tax cut or federal spending sequester is hurting consumers. Although personal income was unchanged in April, prior months were revised higher. Moreover, the dip in income in April was related to a drop in government transfer payments (such as Social Security, Medicare, and Medicaid) as well as farm income, neither of which are due to the sequester. “Real” (inflation-adjusted) income excluding transfer payments increased 0.3% in April and is up 2.1% in the past year, exactly what we should expect in a Plow Horse economy. Consumer spending declined 0.2% in April. But, on net, prior months were revised up slightly. Real consumer spending increased 0.1% in April and is up 2.1% in the past year. More plow horse. Expect further gains in both income and spending over the remainder of the year. Job growth will continue and, as the jobless rate gradually declines, employers will be offering higher wages. Meanwhile, consumers have reduced their financial obligations ratio to the lowest share of income since 1981. (The obligations ratio is the share of after-tax income needed 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, personal consumption prices, was down 0.3% in April and is up only 0.7% from a year ago. Core prices, which exclude food and energy, were unchanged in April and are up only 1.1% from a year ago. Both are clearly below the Fed’s 2% target. However, we believe these price measures have just bottomed and will be noticeably higher by year end. In other news this morning, the Chicago PMI, a measure of manufacturing in that region, jumped to 58.7 for May from 49.0 in April, beating the consensus expected gain to 50.0. The surge in May was the largest gain in any single month since the early 1980s. As a result, we are moving up our forecast for Monday’s national ISM report to 51.9 from 50.7 for April.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-13	Mar-13	Feb-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.0%	0.3%	1.2%	5.8%	2.6%	2.8%
Disposable (After-Tax) Income	-0.1%	0.2%	1.2%	5.2%	0.7%	1.7%
Personal Consumption Expenditures (PCE)	-0.2%	0.1%	0.8%	3.2%	3.1%	2.8%
Durables	0.4%	-0.2%	0.3%	1.8%	8.7%	6.3%
Nondurable Goods	-1.2%	-1.0%	2.0%	-0.7%	-3.0%	0.1%
Services	0.1%	0.6%	0.6%	4.8%	4.4%	3.2%
PCE Prices	-0.3%	-0.1%	0.4%	0.2%	-0.1%	0.7%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.1%	0.1%	0.6%	0.9%	1.1%
Real PCE	0.1%	0.2%	0.4%	3.1%	3.2%	2.1%

Source: Bureau of Economic Analysis