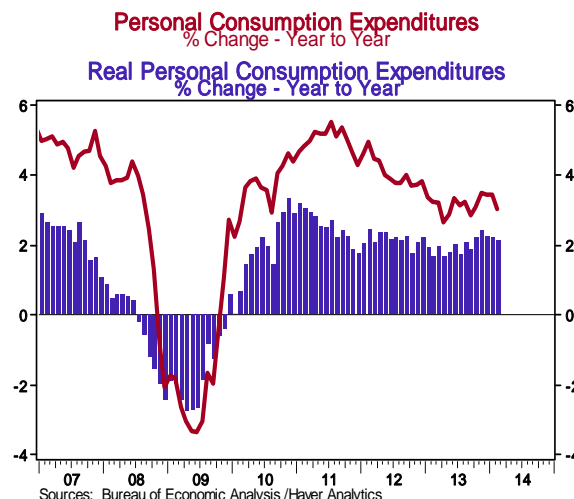


February Personal Income and Consumption

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Personal income and personal spending both increased 0.3% in February, matching consensus expectations. Personal income is up 3.1% in the past year, while spending is up 3.0%.
- Disposable personal income (income after taxes) increased 0.3% in February and is up 3.0% from a year ago. The gain in February was led by government transfers (particularly Medicaid) and private sector wages & salaries.
- The overall PCE deflator (consumer prices) increased 0.1% in February and is up 0.9% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in February and is up 1.1% in the past year.
- After adjusting for inflation, “real” consumption increased 0.2% in February and is up 2.1% from a year ago.

Implications: Consumers braved the weather, lifting spending 0.3% in February, exactly as the consensus expected. We expect further healthy gains as weather patterns return to normal in the next few months. Consumer spending is up 3% from a year ago, but up at only a 2.1% annual rate in the past three months. When its unusually cold and snowy, consumers are less likely to buy autos or the Spring clothing that starts showing up at the malls. Income should not pose a problem for shoppers. Personal income increased 0.3% in February and is up 3.1% from a year ago. A spike in government transfer payments, specifically due to an Obamacare-related surge in Medicaid payments (up 2.5% in February), added to incomes. But private-sector wages & salaries rose 0.2% and are up 3.6% from a year ago even outpacing the 3.5% gain in government transfers. Inflation-adjusted personal income, excluding government transfers, is up 2.1% versus a year ago. We expect both income and spending to keep growing at a healthy clip. Job growth continues and should show some acceleration in March. 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 0.1% in February, the same as “core” consumption prices, which exclude food and energy. Overall consumption prices and core prices are up 0.9% and 1.1%, respectively, in the past year, both below the Fed’s 2% target. While we expect inflation to move higher, the Fed will not be in any hurry to raise the federal funds rate until these measures of inflation head upward. That said, we think inflation will be approaching the Fed’s 2% target by year end.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-14	Jan-14	Dec-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.3%	-0.1%	2.2%	2.4%	3.1%
Disposable (After-Tax) Income	0.3%	0.3%	-0.1%	2.2%	2.1%	3.0%
Personal Consumption Expenditures (PCE)	0.3%	0.2%	0.1%	2.1%	3.6%	3.0%
Durables	-0.2%	-0.5%	-2.6%	-12.3%	-5.4%	0.3%
Nondurable Goods	0.3%	-0.9%	0.8%	0.6%	1.9%	1.0%
Services	0.3%	0.6%	0.3%	5.2%	5.7%	4.2%
PCE Prices	0.1%	0.1%	0.2%	1.4%	1.2%	0.9%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.1%	1.2%	1.1%
Real PCE	0.2%	0.1%	-0.1%	0.7%	2.4%	2.1%

Source: Bureau of Economic Analysis