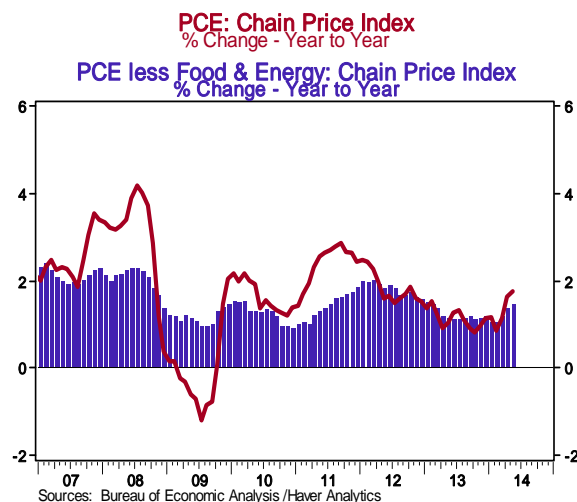
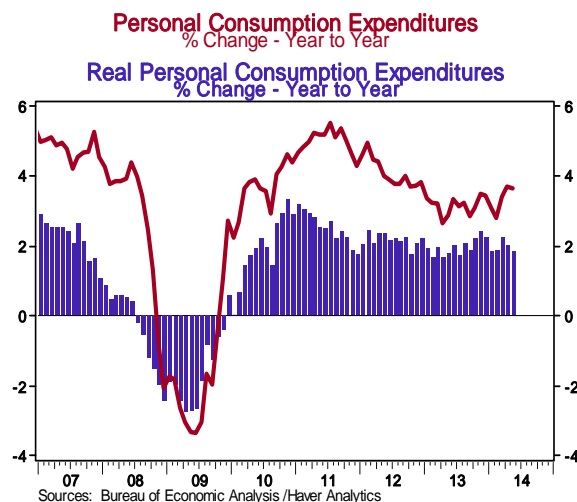


May Personal Income and Consumption

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- Personal income increased 0.4% in May, matching consensus expectations. Personal consumption increased 0.2%, coming in below the consensus expected gain of 0.3%. Personal income is up 3.5% in the past year, while spending is up 3.7%.
- Disposable personal income (income after taxes) increased 0.4% in May and is up 3.7% from a year ago. The gain in May was led by private sector wages & salaries and government transfer payments.
- The overall PCE deflator (consumer prices) increased 0.2% in May and is up 1.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in May and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in May but is up 1.9% from a year ago.

Implications: Don’t let anyone tell you that workers aren’t earning enough to keep increasing their spending. Private-sector wages & salaries increased 0.5% in May and are up 4.3% from a year ago. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.4% in May and is up 3.5% from a year ago. Yes, government transfer payments – like Medicare, Medicaid, Social Security, disability, unemployment compensation – are still an unusually large share of income. These transfers were roughly 14% of income before the recession and peaked at 18% right after the recession. But for the past few years, they’ve been hovering around 17% of income. We’d like to see this share decline to where it was before the recession (or go even lower!), but these payments have not been the driver behind income gains the past few years. Consumer spending grew 0.2% in May and declined slightly when adjusted for inflation. But, given income gains, we expect a solid increase in consumer spending in June and for both income and spending to accelerate in the year ahead. Job growth continues and, 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 0.2% in May, the same as “core” consumption prices, which exclude food and energy. Overall consumption prices are up 1.8% in the past year, approaching the Fed’s 2% target. As recently as October 2013 PCE prices were up only 0.8% from a year ago and we expect to hit the 2% target later this year, putting pressure on the Fed to start raising interest rates in the first half of 2015. In other news this morning, new claims for unemployment insurance declined 2,000 to 312,000. Continuing claims for jobless benefits increased 12,000 to 2.57 million. As a result, we expect payroll gains of roughly 200,000 for June.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-14	Apr-14	Mar-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.3%	0.5%	5.3%	3.8%	3.5%
Disposable (After-Tax) Income	0.4%	0.4%	0.5%	5.6%	3.9%	3.7%
Personal Consumption Expenditures (PCE)	0.2%	0.0%	0.8%	4.0%	2.6%	3.7%
Durables	0.7%	-0.9%	3.4%	13.7%	1.9%	3.9%
Nondurable Goods	0.2%	0.4%	0.1%	2.4%	2.3%	3.6%
Services	0.1%	0.1%	0.7%	3.1%	2.8%	3.6%
PCE Prices	0.2%	0.2%	0.2%	2.5%	1.9%	1.8%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.2%	2.1%	1.5%	1.5%
Real PCE	-0.1%	-0.2%	0.6%	1.5%	0.6%	1.9%

Source: Bureau of Economic Analysis