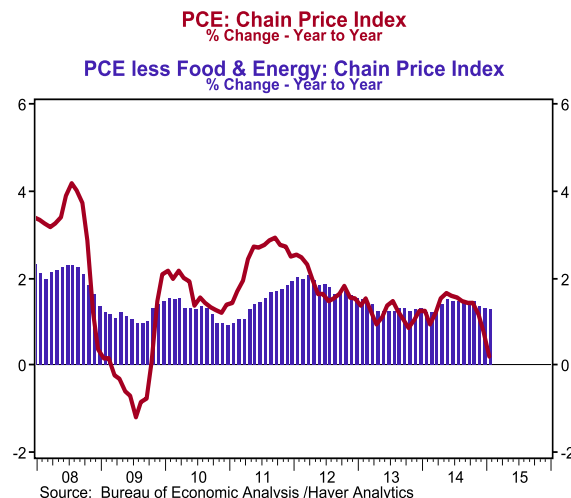
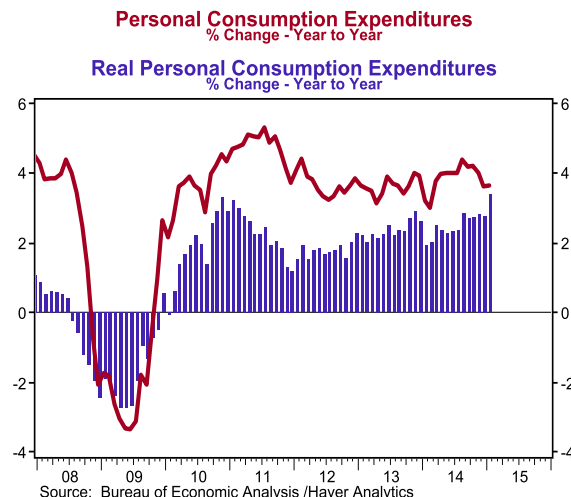


January Personal Income and Consumption

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- Personal income increased 0.3% in January (+0.5% including revisions to prior months). The consensus expected a gain of 0.4%. Personal consumption declined 0.2% in January (-0.1% including revisions to prior months). The consensus expected a decline of 0.1%. Personal income is up 4.6% in the past year, while spending is up 3.6%.
- Disposable personal income (income after taxes) increased 0.4% in January, was up 0.5% including revisions to prior months, and is up 4.4% from a year ago. The gain in January was led by private sector wages & salaries along with social security.
- The overall PCE deflator (consumer prices) declined 0.5% in January but is up 0.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in January and is up 1.3% in the past year.
- After adjusting for inflation, “real” consumption increased 0.3% in January and is up 3.4% from a year ago.



Implications: Consumers are spending less money but getting more stuff. The total amount of consumer spending, in raw (nominal) dollar terms, dropped for the second consecutive month in January. However, due to the huge drop in energy prices, the smaller amount of dollars spent is translating into more purchases in inflation-adjusted terms. The PCE deflator, the Fed’s favorite measure of consumer inflation, fell 0.5% in January, the third consecutive decline. With the exception of the Panic back in late 2008, the drop in January was the steepest on record going back to 1959. Some analysts and investors might be concerned a rebound in overall inflation combined with continued softness in nominal spending will soon translate into weak real “inflation-adjusted” spending. But we think real spending will continue to trend upward. Payrolls are up more than three million in the past year while the number of hours per worker is up as well. As a result, private-sector wages & salaries are up a robust 5.5% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.3% in January and is up 4.6% in the past year, which is faster than the 3.6% gain in consumer spending. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5.9%, largely driven by Obamacare; Medicaid spending is up 11.8% versus a year ago. However, outside Medicaid, government transfers are up a more tepid 4.5% in the past year and unemployment compensation is at the lowest level since 2007. The bad news is that taken all together, government transfer payments – like Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – don’t seem to be falling back to where they were prior to the Panic of 2008, when they were roughly 14% of income. In early 2010, they peaked at 18%. Now they are down to 17% but not falling any further. Redistribution hurts growth because it reallocates resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-15	Dec-14	Nov-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.3%	0.4%	4.3%	4.1%	4.6%
Disposable (After-Tax) Income	0.4%	0.3%	0.3%	4.1%	3.6%	4.4%
Personal Consumption Expenditures (PCE)	-0.2%	-0.3%	0.4%	-0.1%	2.4%	3.6%
Durables	-0.1%	-1.4%	1.5%	-0.1%	2.4%	6.8%
Nondurable Goods	-2.2%	-1.4%	-0.4%	-14.7%	-7.3%	-0.8%
Services	0.5%	0.2%	0.5%	5.2%	5.8%	4.6%
PCE Prices	-0.5%	-0.2%	-0.2%	-3.3%	-1.5%	0.2%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.1%	0.5%	0.9%	1.3%
Real PCE	0.3%	-0.1%	0.6%	3.3%	4.0%	3.4%

Source: Bureau of Economic Analysis