

## March Personal Income and Consumption

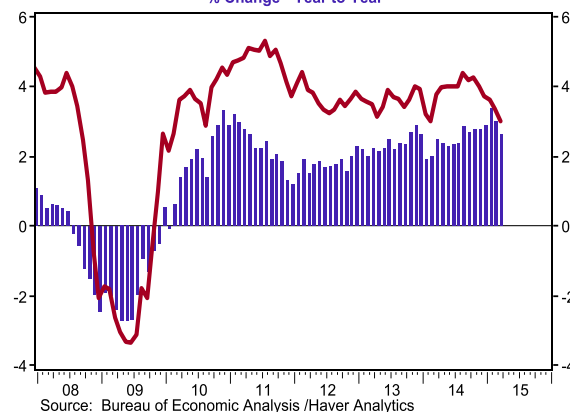
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- Personal income was unchanged in March, coming in below the consensus expected gain of 0.2%. Personal consumption rose 0.4% in March versus a consensus expected 0.5%. Personal income is up 3.8% in the past year, while spending is up 3.0%.
- Disposable personal income (income after taxes) was unchanged in March, but is up 3.6% from a year ago. Gains in private-sector wages & salaries, government benefits, and nonfarm small-business income were offset by lower dividends, farm income and interest income.
- The overall PCE deflator (consumer prices) increased 0.2% in March and is up 0.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in March and is up 1.3% in the past year.
- After adjusting for inflation, “real” consumption increased 0.3% in March and is up 2.7% from a year ago.

**Implications:** Hold off on personal income and spending for a moment. The biggest news this morning was that new claims for jobless benefits fell 34,000 last week to 262,000. Continuing claims dropped 74,000 to 2.25 million. Both initial and continuing claims are now the lowest since 2000. Plugging these figures into our models suggests nonfarm payrolls rose about 280,000 in April, well above the current consensus estimate of 220,000. This is consistent with our view that the economy is rebounding quickly from the lull in Q1 and the Federal Reserve will have the justification it needs to start lifting short-term rates in June. Some analysts may be dismayed by today’s headline of no change in personal income, but this was mostly the result of a drop in dividend and interest income after a spike upward in February. The underlying trend remains positive, with overall personal income up 3.8% in the past year and private wages & salaries up a more robust 4.3%. This trend in income is why consumer spending can keep rising as well, which it did by 0.4% in March. Expect more gains in the months ahead, powered by income gains as well as savings from lower energy prices. In the meantime, lower energy prices helped hold down commercial construction in Q1. Detailed numbers on that sector arrived this morning and showed that 70% of the large drop in commercial construction in Q1 was due to less exploration and drilling for oil and natural gas. In other news this morning, the Employment Cost Index, a useful measure of worker earnings, increased 0.7% in Q1 and is up 2.6% in the past year, the largest gain since 2008. This kind of wage acceleration boosts the case that the Federal Reserve has room to start raising rates. On the housing front, pending home sales, which are contracts on existing homes, increased 1.1% in March, suggesting existing home sales, which are counted at closing, will rise again in April. On the manufacturing front, the Chicago PMI, a measure of factory sentiment in that key region came in at 52.3, above the consensus forecasted 50.0. As a result, we are forecasting that the national ISM index will come in at 52.2, a respectable gain from 51.5 in March.

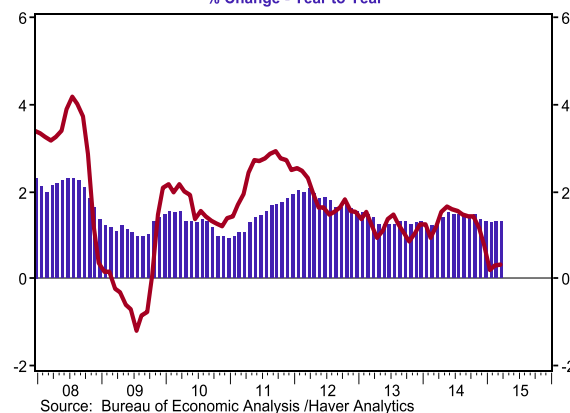
Personal Consumption Expenditures  
% Change - Year to Year

Real Personal Consumption Expenditures  
% Change - Year to Year



PCE: Chain Price Index  
% Change - Year to Year

PCE less Food & Energy: Chain Price Index  
% Change - Year to Year



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-15	Feb-15	Jan-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.0%</b>	0.4%	0.3%	3.3%	3.8%	3.8%
<b>Disposable (After-Tax) Income</b>	<b>0.0%</b>	0.5%	0.4%	3.5%	3.6%	3.6%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.4%</b>	0.2%	-0.3%	1.3%	1.9%	3.0%
<b>Durables</b>	<b>1.8%</b>	-1.0%	0.1%	3.4%	1.9%	3.0%
<b>Nondurable Goods</b>	<b>0.6%</b>	0.3%	-2.6%	-6.8%	-5.9%	-1.0%
<b>Services</b>	<b>0.2%</b>	0.3%	0.4%	3.6%	4.6%	4.3%
<b>PCE Prices</b>	<b>0.2%</b>	0.2%	-0.5%	-0.5%	-0.9%	0.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.1%	0.1%	1.3%	1.1%	1.3%
<b>Real PCE</b>	<b>0.3%</b>	0.0%	0.2%	1.8%	2.9%	2.7%

Source: Bureau of Economic Analysis