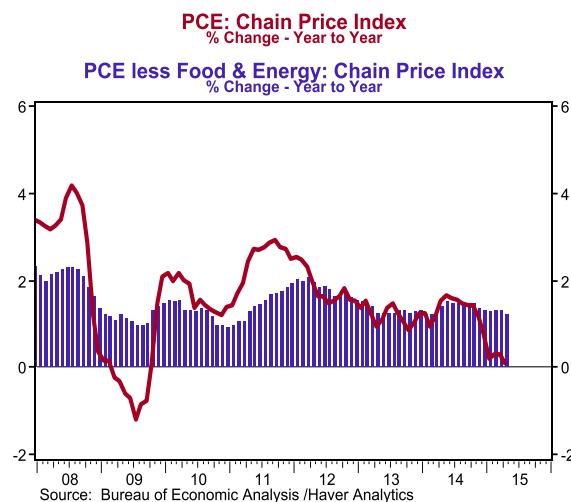
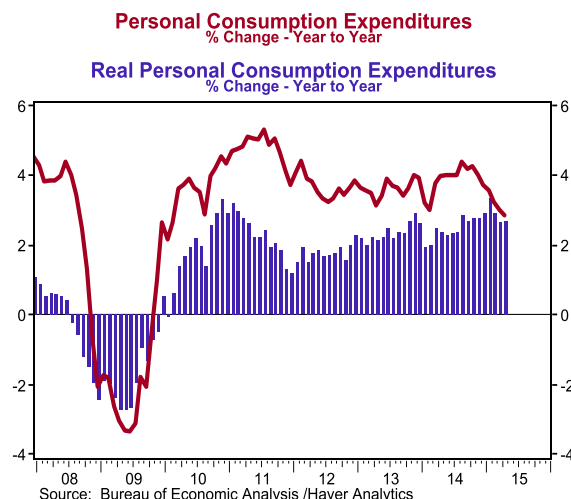


April Personal Income and Consumption

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- Personal income increased 0.4% in April (0.5% including revisions to prior months), coming in above the consensus expected gain of 0.3%. Personal consumption was unchanged in April versus a consensus expected 0.2% gain. Personal income is up 4.1% in the past year, while spending is up 2.8%.
- Disposable personal income (income after taxes) increased 0.4% in April, and is up 3.6% from a year ago. The gain in April was led by personal interest income and private-sector wages & salaries.
- The overall PCE deflator (consumer prices) was unchanged in April but is up 0.1% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in April and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption remained unchanged in April but is up 2.7% from a year ago.



Implications: Although consumer spending took a breather in April (as tax payments surged), consumer purchasing power continued to grow and we expect that to translate into faster spending in the months ahead. Payrolls are up almost three million in the past twelve months and wage growth is starting to accelerate as well. Private-sector wages & salaries are up a robust 5.1% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.4% in April and is up 4.1% in the past year, noticeably faster than the 2.8% gain in consumer spending. This is why consumers have enough income growth to keep on lifting their spending without getting into financial trouble. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5.8%, largely driven by Obamacare (with, Medicaid spending up 10.9% versus a year ago). However, outside Medicaid, government transfers are up a slower 4.6% in the past year and unemployment compensation is very close to the lowest level since 2007. The bad news is that taken all together, government transfer payments – 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 around 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. The PCE deflator, the Fed’s favorite measure of consumer inflation, was flat in April. Although that measure is only up 0.1% from a year ago, it’s been held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.2% from a year ago. That’s still below the Fed’s 2% inflation target, but it’s up at a 1.5% annualized rate in the past three months. Now that energy prices have leveled off, look for overall inflation to move up toward “core” inflation over the rest of the year. Key fact: incomes and spending are up even with price pressures low. That’s real growth. The Fed knows all this, which is why we still think it will strongly consider a rate hike at the meeting later this month.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-15	Mar-15	Feb-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.0%	0.4%	3.3%	4.0%	4.1%
Disposable (After-Tax) Income	0.4%	0.0%	0.4%	3.2%	3.4%	3.6%
Personal Consumption Expenditures (PCE)	0.0%	0.5%	0.1%	2.6%	1.0%	2.8%
Durables	-0.7%	1.9%	-1.0%	0.4%	0.7%	3.0%
Nondurable Goods	-0.5%	0.9%	0.1%	1.9%	-6.9%	-2.0%
Services	0.2%	0.2%	0.3%	3.2%	3.8%	4.4%
PCE Prices	0.0%	0.2%	0.2%	1.4%	-1.0%	0.1%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.5%	1.0%	1.2%
Real PCE	0.0%	0.4%	0.0%	1.2%	2.1%	2.7%

Source: Bureau of Economic Analysis

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