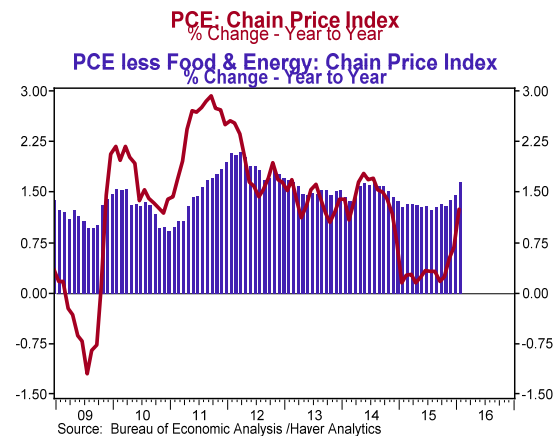
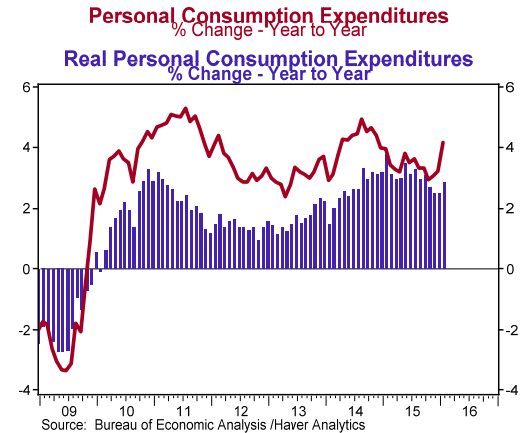


January Personal Income and Consumption

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- Personal income increased 0.5% in January (0.3% including prior months' revisions). The consensus expected a gain of 0.4%. Personal consumption also rose 0.5% in January (+0.6% including revisions to prior months). The consensus expected a gain of 0.3%. Personal income is up 4.3% in the past year, while spending is up 4.2%.
- Disposable personal income (income after taxes) increased 0.5% in January and is up 4.0% from a year ago. The gain in January was led by private-sector wages and salaries. Most categories showed modest gains.
- The overall PCE deflator (consumer prices) rose 0.1% in January and is up 1.3% versus a year ago. The "core" PCE deflator, which excludes food and energy, was increased 0.3% in January and is up 1.7% in the past year.
- After adjusting for inflation, "real" consumption rose 0.4% in January and is up 2.9% from a year ago.



Implications: These are certainly not recessionary numbers. Household spending grew at the fastest pace in nearly a year, with outlays on both goods and services moving higher. Service spending rose 0.6% in January, boosted in part by utilities spending as cold temperatures returned in January after an unusually warm December. Meanwhile, purchases of durable goods (big-ticket items like autos and appliances) rose the most in eight months. But don't think the 4.2% rise in spending over the past year has been due to some unsustainable credit binge. Instead, it reflects higher purchasing power by American workers. Personal income rose 0.5% in January, beating consensus expectations, and is up 4.3% in the past year. The increase in income was led by wages and salaries in private service-providing industries, but wages rose in every major category. The main driver of the income gains in the past year has been overall private-sector wages and salaries, which are up 4.9% from a year ago. The only bad news in this report was the continued failure to make progress against government redistribution. Although unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons were up 0.4% in January and are up 4.4% in the past year, largely driven by the Obamacare-related expansion of Medicaid. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they're around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens the incentive to produce. This is why we have a Plow Horse economy, not a Race Horse economy. On the inflation front, the PCE deflator, the Fed's favorite measure, rose 0.1% in January. Although it's only up 1.3% from a year ago, it continues to be held down by falling energy prices. The "core" PCE deflator, which excludes food and energy, is up 1.7% from a year ago. That's also below the Fed's 2% inflation target, but the core PCE deflator is up at a 2% annual rate in the past three months and we expect some acceleration in the year-to-year change in the coming year. As soon as energy prices stop falling, inflation is going to pick up. Together with continued employment gains, these data support the case for two or three rate hikes in 2016.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-16	Dec-15	Nov-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.3%	0.3%	4.4%	3.7%	4.3%
Disposable (After-Tax) Income	0.5%	0.3%	0.2%	4.0%	3.4%	4.0%
Personal Consumption Expenditures (PCE)	0.5%	0.1%	0.4%	4.0%	3.2%	4.2%
Durables	1.2%	-0.5%	1.1%	7.7%	4.5%	5.1%
Nondurable Goods	0.0%	-0.8%	0.5%	-1.4%	-2.5%	2.7%
Services	0.6%	0.5%	0.3%	5.2%	4.8%	4.5%
PCE Prices	0.1%	-0.1%	0.1%	0.7%	0.3%	1.3%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.1%	0.1%	2.0%	1.6%	1.7%
Real PCE	0.4%	0.2%	0.3%	3.4%	2.8%	2.9%

Source: Bureau of Economic Analysis