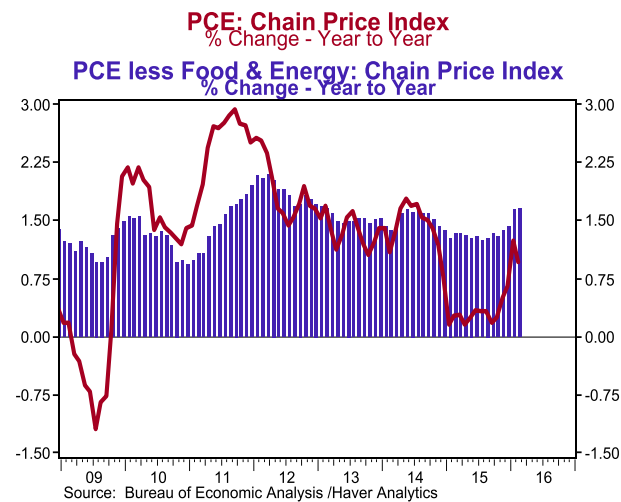
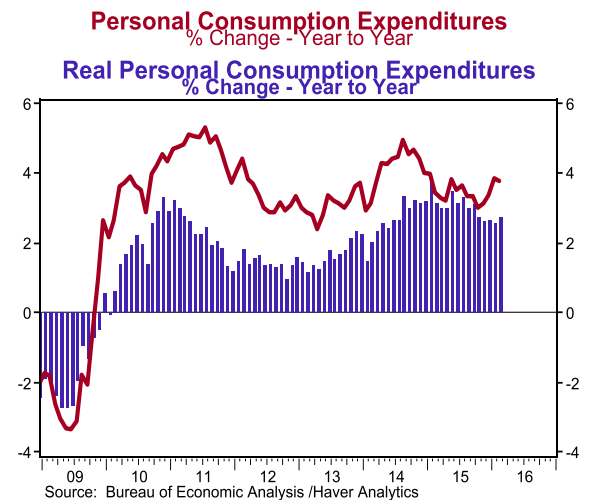


February Personal Income and Consumption

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- Personal income increased 0.2% in February (unchanged, including prior months' revisions), versus a consensus expected 0.1%. Personal consumption rose 0.1% in February (-0.2% including revisions to prior months), matching consensus expectations. Personal income is up 4.0% in the past year, while spending is up 3.8%.
- Disposable personal income (income after taxes) increased 0.2% in February and is up 3.7% from a year ago. The gain in February was led by government benefits.
- The overall PCE deflator (consumer prices) declined 0.1% in February but is up 1.0% versus a year ago. The "core" PCE deflator, which excludes food and energy, increased 0.1% in February and is up 1.7% in the past year.
- After adjusting for inflation, "real" consumption rose 0.2% in February and is up 2.8% from a year ago.



Implications: Consumers kept lifting spending in February, but at the same slow pace as December and January. Service spending rose 0.4% in February, offset in part by a third consecutive month of declines in spending on goods. However, we don't think these data mean trouble for consumers, who have lifted their spending for thirteen consecutive months. Spending is up 3.8% from a year ago and is not due to an unsustainable credit binge. Instead, it reflects higher purchasing power by American workers; private-sector wages and salaries are up 4.6% from a year ago. Overall personal income rose 0.2% in February, beating consensus expectations, and is up 4% in the past year. The worst news in today's report was that the gain in income in February itself was led by government benefits and rising wages in the government sector; wages and salaries in the private sector declined modestly. So while unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons were up 0.5% in February and are up 4.3% 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. On the inflation front, the PCE deflator, the Fed's favorite measure, fell 0.1% in February. Although it's only up 1.0% 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 months ahead. Together with continued employment gains, these data support the case for at least two more rate hikes in 2016. In other news this morning, pending home sales, which are contracts on existing homes, rose 3.5% in February, the largest monthly gain in a year. In turn, existing home sales, which are counted at closing, should be up in March.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-16	Jan-16	Dec-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.5%	0.3%	3.6%	3.2%	4.0%
Disposable (After-Tax) Income	0.2%	0.4%	0.3%	3.4%	2.9%	3.7%
Personal Consumption Expenditures (PCE)	0.1%	0.1%	0.1%	1.3%	2.1%	3.8%
Durables	0.1%	-0.7%	-0.5%	-4.2%	0.1%	3.7%
Nondurable Goods	-1.1%	-0.5%	-0.7%	-8.8%	-6.0%	0.9%
Services	0.4%	0.4%	0.5%	5.6%	5.2%	4.7%
PCE Prices	-0.1%	0.1%	-0.1%	-0.3%	0.1%	1.0%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.3%	0.1%	2.0%	1.7%	1.7%
Real PCE	0.2%	0.0%	0.2%	1.6%	2.0%	2.8%

Source: Bureau of Economic Analysis