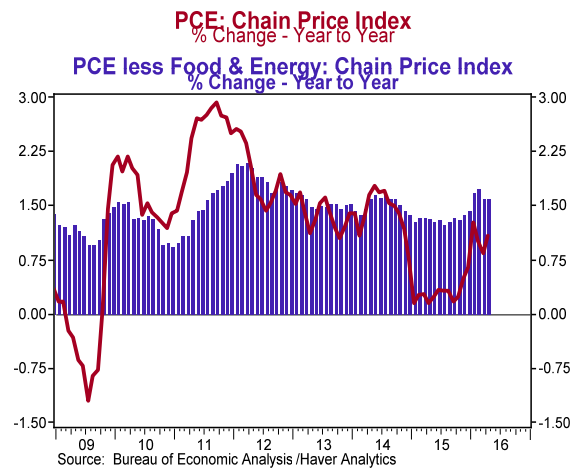
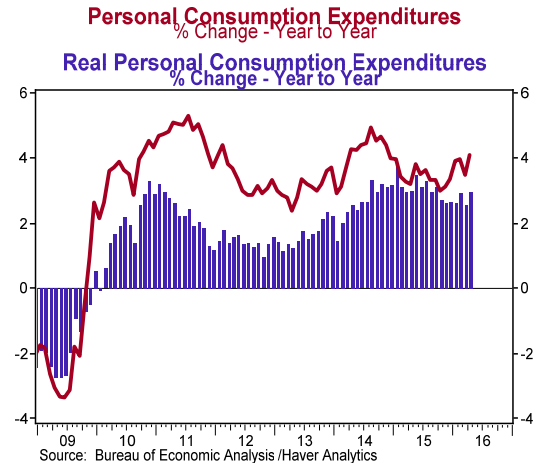


April Personal Income and Consumption

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- Personal income increased 0.4% in April, matching consensus expectations, but was up 0.8% including prior months' revisions. Personal consumption rose 1.0% in April, beating the consensus expected a gain of 0.7%. Personal income is up 4.4% in the past year, while spending is up 4.1%.
- Disposable personal income (income after taxes) increased 0.5% in April and is up 4.4% from a year ago. The gain in April was led by private sector wages and salaries.
- The overall PCE deflator (consumer prices) rose 0.3% in April and is up 1.1% versus a year ago. The "core" PCE deflator, which excludes food and energy, increased 0.2% in April and is up 1.6% in the past year.
- After adjusting for inflation, "real" consumption rose 0.6% in April and is up 3.0% from a year ago.

Implications: A blow out report today for consumption makes a very compelling case for a June rate hike by the Fed. Incomes and spending continued to move higher in April, led by solid growth in private-sector wages and salaries. Personal consumption boomed 1.0%. That's the largest increase for any month since 2009, when the government was passing out checks for "cash-for-clunkers." Excluding that program, it was the largest gain in any month since 2005. No signs of a recession here, not even close. Consumer spending is up 4.1% from a year ago, but it is not due to an unsustainable credit binge. Instead, it reflects higher purchasing power by American workers; private-sector wages and salaries rose 0.5% in April and are up 5.7% from a year ago. Overall personal income rose 0.4% in April, but including revisions to prior months was up a robust 0.8%. In the past year income is up 4.4%, *continuing to grow faster than spending*. One part of the report we keep a close eye on is government redistribution. While unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons were up 0.5% in April and are up 3.9% in the past year. 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, can weaken the incentive to produce. On the inflation front, the PCE deflator, the Fed's favorite measure, increased 0.3% in April. Although it's only up 1.1% from a year ago, it was up only 0.2% in the year ending in April 2015, so inflation is accelerating. Meanwhile, the "core" PCE deflator, which excludes food and energy, is up 1.6% from a year ago. That's also below the Fed's 2% inflation target, but we expect continued 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 rate hikes in 2016, with the first in June. On the housing front, the national Case-Shiller price index increased 0.1% in March and is up 5.2% in the past year, an acceleration from the 4.3% gain in the year ending in March 2015. Price gains in the past twelve months have been led by Portland, Seattle, and Denver. In other news this morning, the Chicago PMI, a measure of manufacturing activity in that region, slipped to 49.3 in May from 50.4 in April. As a result, we're forecasting that the national ISM Manufacturing index slips slightly for May but remains above 50, signaling expansion.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Apr-16 | Mar-16 | Feb-16 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|-------------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.4% | 0.4% | 0.1% | 3.7% | 4.0% | 4.4% |
| Disposable (After-Tax) Income | 0.5% | 0.4% | 0.1% | 3.8% | 4.3% | 4.4% |
| Personal Consumption Expenditures (PCE) | 1.0% | 0.0% | 0.2% | 5.0% | 3.9% | 4.1% |
| Durables | 2.3% | -0.1% | 0.4% | 10.5% | 4.7% | 3.7% |
| Nondurable Goods | 1.4% | 0.4% | -0.9% | 3.8% | 0.4% | 2.3% |
| Services | 0.6% | 0.0% | 0.6% | 4.5% | 4.9% | 4.7% |
| PCE Prices | 0.3% | 0.1% | -0.1% | 1.1% | 0.9% | 1.1% |
| "Core" PCE Prices (Ex Food and Energy) | 0.2% | 0.1% | 0.2% | 1.7% | 1.9% | 1.6% |
| Real PCE | 0.6% | 0.0% | 0.3% | 3.8% | 3.0% | 3.0% |

Source: Bureau of Economic Analysis