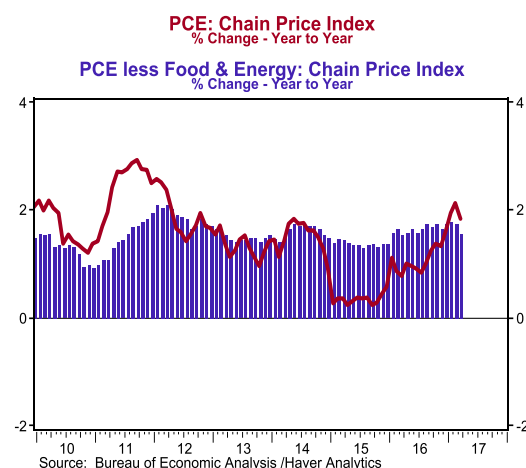
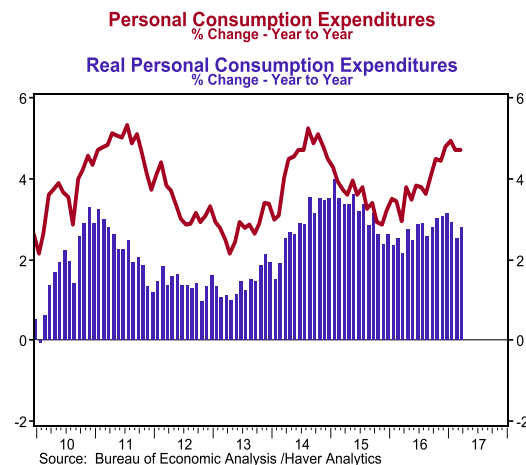


March Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Economist

- Personal income increased 0.2% in March, coming in below the consensus expected +0.3%. Personal consumption was unchanged in March versus the consensus expected 0.2%. Personal income is up 4.5% in the past year, while spending is up 4.7%.
- Disposable personal income (income after taxes) increased 0.2% in March and is up 4.3% from a year ago. The gain in March was led by government social benefits and non-farm proprietors' income.
- The overall PCE deflator (consumer inflation) declined 0.2% in March but is up 1.8% versus a year ago. The "core" PCE deflator, which excludes food and energy, declined 0.1% in March but is up 1.6% in the past year.
- After adjusting for inflation, "real" consumption rose 0.3% in March and is up 2.8% from a year ago.

Implications: Disappointing headlines on personal income and spending in March, but no reason to batten down the hatches. Adjusting for the decline in prices in March, "real" (inflation-adjusted) consumer spending was up a healthy 0.3% in March. Although personal income rose 0.2% in March, slightly below the consensus expected gain of 0.3%, the minor miss versus consensus is of little concern, as monthly volatility ebbs and flows but the trend remains intact. What is most disappointing in the March report is that government redistribution led incomes higher in March while private sector wages and salaries stagnated. If President Trump wants faster growth, he needs to slow the growth of (or outright reduce!) government benefits. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – 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 work incentives. While incomes rose in March, nominal spending was unchanged. Spending on goods declined 0.7%, but was offset by a 0.4% increase in spending on services. As always, we like to take a step back and look at the trend. Personal income is up a healthy 4.5% in the past year, while spending has increased 4.7%. We will continue to watch the monthly data on earnings and spending for signs of concern, but we haven't seen them yet. On the inflation front, the PCE deflator declined 0.2% in March and fell but is up 1.8% in the past year. By contrast, a year ago, in March 2016, the 12-month change for prices was only 0.8%; in March 2015, it was up a meager 0.4%. In other words, inflation has been accelerating despite the drop in prices in March. And it's not just an energy story. "Core" prices, which exclude food and energy, declined 0.1% in March, but are up 1.6% from a year ago. We expect the PCE deflator will continue to hover at or above the Fed's 2% inflation targets in the month ahead and, along with continued employment growth, will give the Fed a green light for additional rate hikes and the start of balance sheet normalization later this year. Put it all together, and the weakness in the March report looks to be little more than normal volatility in a growing economy.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-17	Feb-17	Jan-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.3%	0.4%	4.1%	3.8%	4.5%
Disposable (After-Tax) Income	0.2%	0.3%	0.3%	3.4%	3.6%	4.3%
Personal Consumption Expenditures (PCE)	0.0%	0.0%	0.2%	0.9%	3.2%	4.7%
Durables	-1.4%	0.1%	-0.8%	-7.9%	-0.6%	4.2%
Nondurable Goods	-0.3%	-0.2%	1.0%	1.8%	4.4%	5.0%
Services	0.4%	0.0%	0.1%	2.1%	3.4%	4.7%
PCE Prices	-0.2%	0.1%	0.4%	1.3%	1.6%	1.8%
"Core" PCE Prices (Ex Food and Energy)	-0.1%	0.2%	0.3%	1.4%	1.3%	1.6%
Real PCE	0.3%	-0.1%	-0.3%	-0.5%	1.6%	2.8%

Source: Bureau of Economic Analysis