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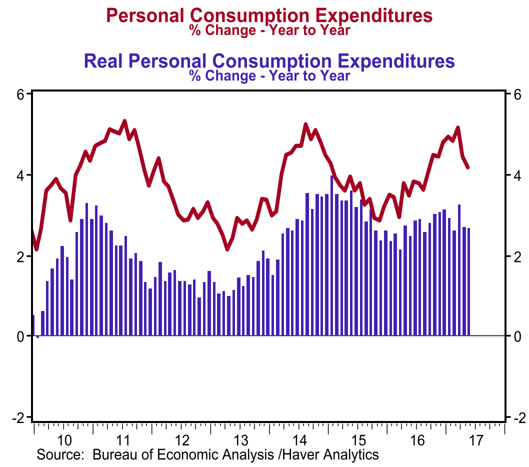
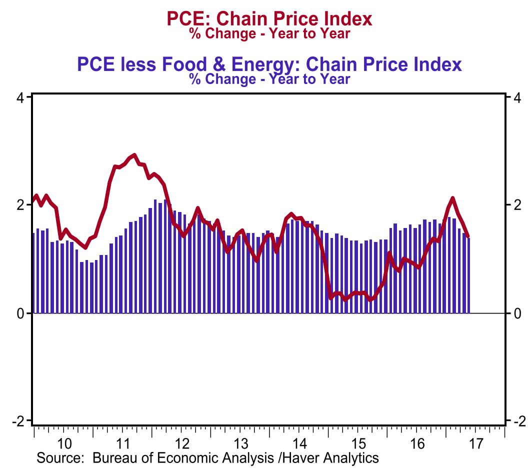
May Personal Income and Consumption

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

- Personal income increased 0.4% in May, (0.3% including revisions to prior months). The consensus expected a 0.3% gain. Personal consumption increased 0.1%, (+0.2% including prior months' revisions). The consensus expected a gain of 0.1%. Personal income is up 3.5% in the past year, while spending is up 4.2%.
- Disposable personal income (income after taxes) increased 0.5% in May and is up 3.7% from a year ago. The gain in May was led by dividend income.
- The overall PCE deflator (consumer inflation) declined 0.1% in May but is up 1.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.1% in May and is up 1.4% in the past year.
- After adjusting for inflation, "real" consumption rose 0.1% in May and is up 2.7% from a year ago.





Implications: Good news for consumers. Incomes and spending continued to move higher in May, led by the fastest growth in dividends since December 2012. Incomes are showing the strongest start to a year since 2014 and are up 3.5% in the past year. But it wasn't just dividends that rose in May. All major categories of income rose, as well. Along with the rising incomes, spending ticked up 0.1%. As always, we like to take a step back and look at the trend. While spending growth has outpaced income over the past year, incomes are up at a 3.6% annual rate in the past three months compared to a 3.3% pace for spending. Some stories are claiming consumers are in trouble, but the facts suggest otherwise. Consumer debts are at a record high in dollar terms, but so are consumer assets. Comparing the two, debts are the lowest relative to assets since 2000 (and that's back during the internet bubble when asset values were artificially high). Meanwhile, the financial obligations ratio - which compares debt and other recurring payments to income – is still hovering near the lowest levels of the past thirty years. The US consumer is in excellent shape. On the inflation front, the PCE deflator declined 0.1% in May but is up 1.4% in the past year. By contrast, a year ago, in May 2016, the 12-month change for prices was only 1.0%; in May 2015, it was up a meager 0.3%. In other words, we think inflation is still in a long-term accelerating trend. Falling energy prices will hold inflation readings down again in June but we expect to be close to the Fed's 2% inflation target at year end, which is consistent with the Fed raising rates again in September and then starting balance sheet normalization on October 1. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that region, rose to 65.7 in June from 59.4, the highest reading in more than three years. As a result, we think Monday's national ISM Manufacturing index will show a gain for June.

Personal Income and Spending *All Data Seasonally Adjusted*	May-17	Apr-17	Mar-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	0.3%	0.2%	3.6%	4.2%	3.5%
Disposable (After-Tax) Income	**0.5%**	0.3%	0.2%	4.2%	4.4%	3.7%
Personal Consumption Expenditures (PCE)	**0.1%**	0.4%	0.4%	3.3%	3.4%	4.2%
Durables	**-0.3%**	1.0%	-0.4%	1.2%	2.5%	4.3%
Nondurable Goods	**-0.5%**	0.5%	0.0%	0.0%	2.7%	3.2%
Services	**0.3%**	0.2%	0.6%	4.6%	3.7%	4.5%
PCE Prices	**-0.1%**	0.2%	-0.2%	-0.5%	1.2%	1.4%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	-0.1%	0.3%	1.4%	1.4%
Real PCE	**0.1%**	0.2%	0.6%	3.7%	2.1%	2.7%

Source: Bureau of Economic Analysis