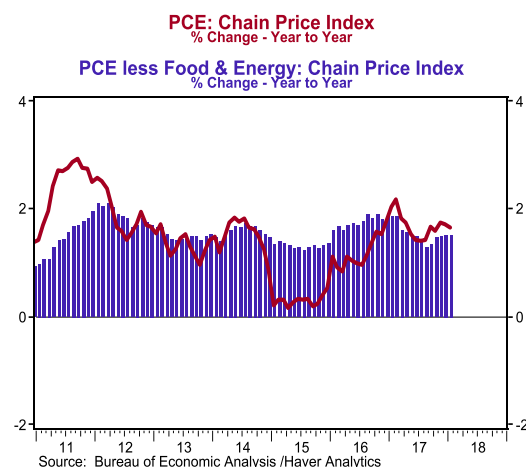
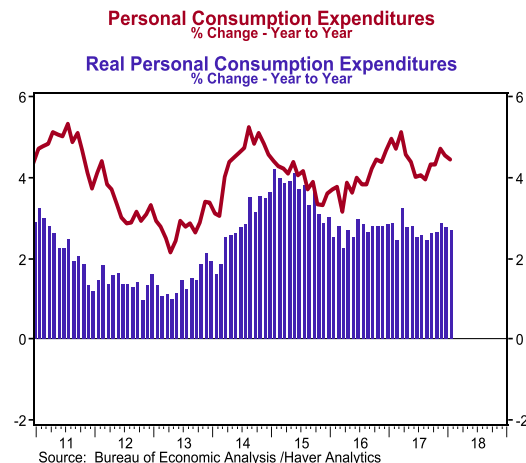


January Personal Income and Consumption

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- Personal income rose 0.4% in January versus a consensus expected 0.3%. Personal consumption increased 0.2% in January, matching consensus expectations. Personal income is up 3.8% in the past year, while spending is up 4.4%.
- Disposable personal income (income after taxes) rose 0.9% in January and is up 4.0% from a year ago. The gain in January was led by a drop in personal taxes and a rise in private sector wages and salaries as well as government transfers.
- The overall PCE deflator (consumer inflation) rose 0.4% in January and is up 1.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.3% in January and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in January but is up 2.7% from a year ago.



Implications: Consumers enjoyed a strong start to 2018, as impacts from the Tax Cuts and Jobs Act begin to materialize. Personal income increased 0.4% in January, led by rising wages and salaries in the private sector, and has seen a healthy 3.8% gain over the past twelve months. This was aided by an estimated \$30 billion in one-time bonuses paid out by companies that see the newly lowered corporate tax rates boosting their bottom line. And it’s not just bonuses, the Bureau of Economic Analysis estimates that the tax cuts reduced personal taxes by a whopping \$115.5 billion at an annual rate, pushing after-tax income higher by 0.9% in January. Government transfers also jumped in January, as the 2% cost-of-living adjustment took effect for Social Security beneficiaries in January. But this is a one-time bump, so while government transfers rose a significant 1.3% in January, month-to-month growth will return to more normal levels in the months ahead. And while government transfers are up 3% in the past year, total income has grown at a faster 3.8% during the same period (and private sector wages and salaries rose 5.0%!), so transfer payments are making up a smaller portion of income than a year ago. On the spending side, personal consumption increased 0.2% in January and is up 4.4% in the past year. Some have bemoaned this rise in spending, suggesting that consumers are digging themselves into a hole. But while consumer debts are at a record high in raw dollar terms, 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), and falling. Meanwhile, the financial obligations ratio – which compares debt and other recurring payments to income – is still relatively low. In other words, consumers still have plenty of room to increase spending. On the inflation front, the overall PCE deflator rose 0.4% in January and is up 1.7% in the past year. “Core” prices, which exclude food and energy, are accelerating, up at a 2.1% annual rate in the past three months versus a 1.5% gain the past year, and provide clear backing for the Fed to raise rates four times this year. On the jobs front, initial jobless claims declined 10,000 last week to 210,000, while continuing claims rose 57,000 to 1.931 million. Initial claims are now the lowest since 1969, so look for another solid jobs report in February, although heavy snow in parts of the country might put some temporary downward pressure on payrolls for the month. If so, don’t fall into the trap of thinking the good times are over. Job gains should rebound in the following months.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-18	Dec-17	Nov-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.4%	0.3%	4.5%	4.6%	3.8%
Disposable (After-Tax) Income	0.9%	0.4%	0.3%	6.4%	5.0%	4.0%
Personal Consumption Expenditures (PCE)	0.2%	0.4%	0.7%	5.3%	5.7%	4.4%
Durables	-1.5%	0.5%	0.7%	-1.1%	3.9%	4.6%
Nondurable Goods	1.0%	-0.4%	1.4%	8.1%	9.0%	4.3%
Services	0.3%	0.6%	0.5%	5.5%	5.0%	4.4%
PCE Prices	0.4%	0.1%	0.2%	2.9%	3.0%	1.7%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.2%	0.1%	2.1%	2.0%	1.5%
Real PCE	-0.1%	0.2%	0.5%	2.3%	2.6%	2.7%

Source: Bureau of Economic Analysis