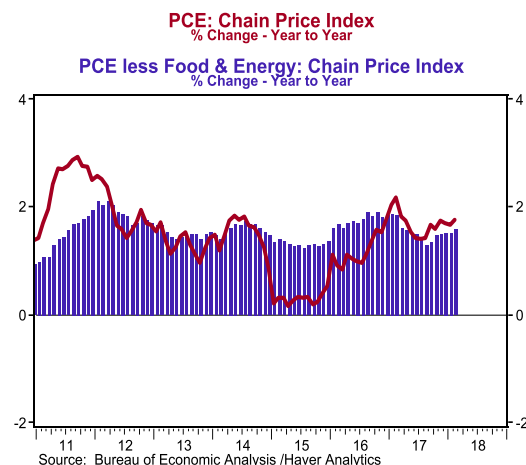
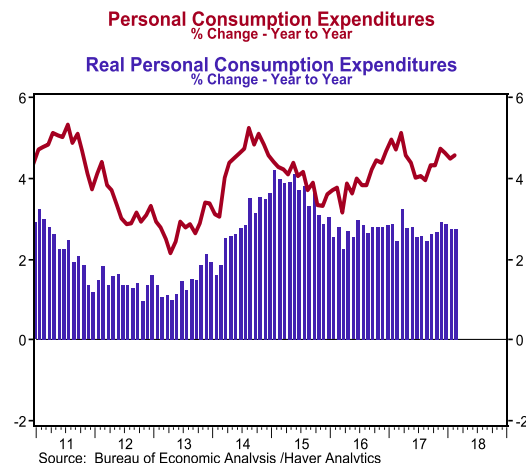


February Personal Income and Consumption

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- Personal income rose 0.4% in February (+0.5% including revisions to prior months), matching consensus expectations. Personal consumption increased 0.2% in February, also matching consensus. Personal income is up 3.7% in the past year, while spending is up 4.6%.
- Disposable personal income (income after taxes) rose 0.4% in February and is up 3.9% from a year ago. The gain in February was led by a rise in private-sector wages and salaries and nonfarm small business income.
- The overall PCE deflator (consumer prices) rose 0.2% in February and is up 1.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in February and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in February but is up 2.8% from a year ago.

Implications: Healthy income gains continued in February, continuing the trend higher that started in mid-2017. Personal income increased 0.4% in February, led by rising wages and salaries in the private sector, and has seen a healthy 3.7% gain over the past twelve months. Unlike the 0.4% increase in January, which was aided by an estimated \$30 billion in one-time bonuses paid out by companies after the corporate tax cut was passed, the February gain in income was not aided by such one-time factors. One factor that will continue to boost after-tax incomes is the reduced personal tax rate, which helped push disposable income higher by 0.4% in February. One of the best pieces of news in today’s report is that government transfers were unchanged in February after seeing a boost due to a Social Security cost-of-living adjustment in January. And while government transfers are up 2.6% in the past year, total income has grown at a faster 3.7% during the same period (and private sector wages and salaries rose 4.8%!), 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 February and is up 4.6% 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 0.2% in February and is up 1.8% in the past year. “Core” prices, which exclude food and energy, are accelerating, up at a 2.8% annual rate in the past three months versus a 1.6% gain the past year, supporting the changed language in the most recent Fed statement forecasting inflation will reach their 2% target “in coming months” rather than “this year”. On the jobs front, initial jobless claims declined 12,000 last week to 215,000, while continuing claims rose 35,000 to 1.871 million. Initial claims are now the lowest since 1973 and just two weeks away from the longest streak of readings under 300,000. Plugging this into our models suggests payrolls will be up about 150,000 in March, a solid number considering snowstorms on the East Coast and the trend in recent years for March results to come in relatively weak. In recent housing news, pending home sales, which are contracts on existing homes, rose 3.1% in February after a 5.0% decline in January. These reports suggest existing home sales, which are counted at closing, should move modestly lower in March.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-18	Jan-18	Dec-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.4%	0.4%	5.1%	5.0%	3.7%
Disposable (After-Tax) Income	0.4%	1.0%	0.4%	7.1%	5.6%	3.9%
Personal Consumption Expenditures (PCE)	0.2%	0.2%	0.5%	3.3%	5.8%	4.6%
Durables	0.2%	-1.5%	0.2%	-4.1%	6.9%	4.3%
Nondurable Goods	-0.2%	0.5%	0.0%	1.1%	6.3%	4.5%
Services	0.3%	0.3%	0.6%	5.3%	5.5%	4.6%
PCE Prices	0.2%	0.4%	0.1%	2.9%	3.0%	1.8%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.3%	0.2%	2.8%	2.3%	1.6%
Real PCE	0.0%	-0.2%	0.3%	0.4%	2.7%	2.8%

Source: Bureau of Economic Analysis