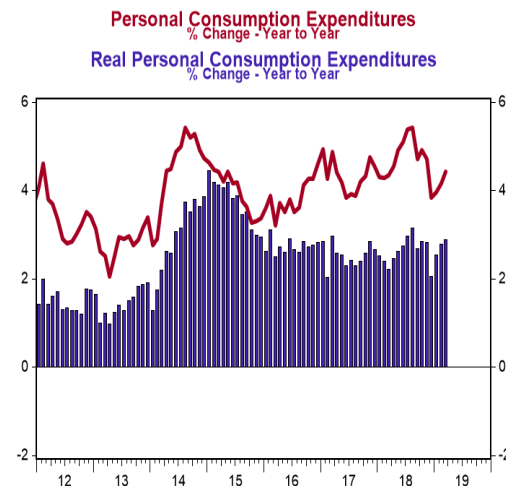


Mar. Personal Income and Jan. Consumption

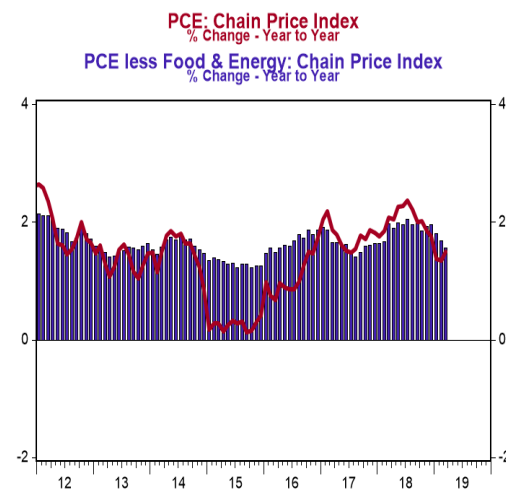
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- Personal income rose 0.1% in March versus a consensus expected 0.4%. Personal consumption rose 0.1% in February (versus a consensus expected 0.3%) and 0.9% in March (beating the consensus expected rise of 0.7%). Personal income is up 3.8% in the past year, while spending has increased 4.4%.
- Disposable personal income (income after taxes) was unchanged in March, but is up 3.9% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in March and is up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in March but is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in February, rose 0.7% in March, and is up 2.9% from a year ago.

Implications: Following a few months of disjointed reports due to the government shutdown, the BEA is back on track with reporting personal income and spending and the data show healthy economic activity. Personal income rose 0.1% in March, as a healthy 0.4% increase in private sector wages and salaries was largely offset by a drop in interest income and a decline in the subsidy payments the Department of Agriculture sends to farmers. Meanwhile we received spending data for both February and March. While February showed a modest 0.1% increase in spending, March spending jumped 0.9%, the largest monthly increase since August 2009. Motor vehicles & parts and health care led the way for spending in March, though consumption rose nearly across the board. After a slowdown in spending in December and January, the pessimists suggested this was the start of a new trend lower, but that weakness has proven temporary. In the past year, personal spending has increased a very healthy 4.4%, and is up at a 5.2% annualized rate over the past three months. Income has increased 3.8% in the past year, and while incomes are up only 0.7% at an annualized rate in the past three months, that is due to very volatile data. December incomes surged, while January declined. Looking at 4 months, shows incomes up 3.6% at an annual rate. On the inflation front, PCE prices rose 0.2% in March and are up 1.5% in the past year. “Core” inflation – which excludes the volatile food and energy sectors – was unchanged in March but is up 1.6% in the past year. With last week’s Q1 GDP print coming in above expectations (and well above the near zero reading many were forecasting at the start of the year), the Pouting Pundits shifted their focus towards below-target inflation as a reason the Fed should cut rates rather than raise them. [But growth data say the opposite](#). It’s true that a 1.6% core inflation is below the Fed’s 2% target, there is no reason to fear a deflationary environment. We expect inflation to move higher in the months ahead, but even if it doesn’t inflation is not weak enough (especially given strong economic growth) to justify cutting rates. In fact, we suspect by year-end 2019, the market will be expecting rate hikes.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-19	Feb-19	Jan-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.1%	0.2%	-0.1%	0.7%	3.9%	3.8%
Disposable (After-Tax) Income	0.0%	0.1%	-0.2%	-0.2%	4.0%	3.9%
Personal Consumption Expenditures (PCE)	0.9%	0.1%	0.3%	5.2%	3.7%	4.4%
Durables	2.3%	-1.1%	-0.1%	4.4%	0.5%	1.7%
Nondurable Goods	1.4%	-0.2%	0.9%	8.5%	2.0%	3.5%
Services	0.5%	0.4%	0.2%	4.4%	4.7%	5.1%
PCE Prices	0.2%	0.1%	0.0%	1.0%	1.1%	1.5%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.1%	0.1%	0.7%	1.4%	1.6%
Real PCE	0.7%	0.0%	0.4%	4.1%	2.5%	2.9%

Source: Bureau of Economic Analysis