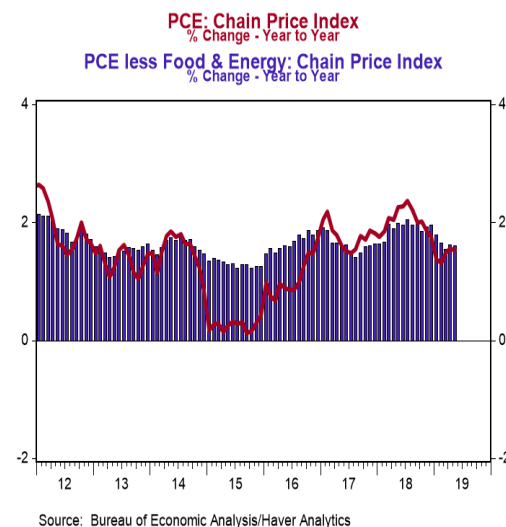
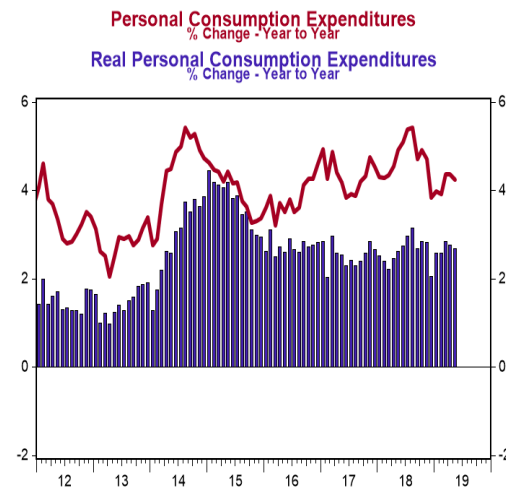


May Personal Income and Consumption

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- Personal income rose 0.5% in May, beating the consensus expected gain of 0.3%. Personal consumption rose 0.4% in May (+0.5% including revisions to prior months), versus a consensus expected +0.5%. Personal income is up 4.1% in the past year, while spending has increased 4.2%.
- Disposable personal income (income after taxes) rose 0.5% in May and is up 3.9% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in May and is up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in May and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in May, and is up 2.7% from a year ago.

Implications: Strength in income and spending continued in May, on the back of a strong report in April that was revised even higher. Personal income rose 0.5% in May - matching April for the largest one-month jump in 2019 and tied for the second largest monthly increase in more than two years - as interest income and wages & salaries pushed overall incomes higher. Meanwhile spending rose 0.4% in May, made more impressive considering that comes after a 1.0% jump in March and a 0.6% increase in April (which, we should note, was revised higher in today’s report from the original reading of +0.3%). To put that in perspective, the 8.3% annualized growth in spending over the past three months is the fastest pace we have seen since late 2009. And it’s not just spending that has picked up, personal income is up 4.1% in the past year, but up at a faster 4.5% annualized rate over both the past three and six-month periods. This is not the type of data that would suggest a need for lower interest rates, and the Fed acknowledged the health of consumer activity in leaving rates unchanged at the June meeting just over a week ago. Their focus was instead on inflation, which has continued to run below its 2% target. PCE prices rose 0.2% in May and are up 1.5% in the past year, while “core” prices, which exclude the volatile food and energy sectors, also rose 0.2% in May but is up a slightly faster 1.6% in the past twelve months. However, over the past three months those measures have accelerated, with overall PCE prices up at a 2.8% annualized rate while “core” prices are up 2% annualized, both either at or exceeding the Fed’s targets. Unfortunately, today’s data will probably do little to change their leanings toward cutting rates in July barring resolution on the trade tariffs with China and signs that inflation is moving higher. Is a rate cut needed? Not at all. The US continues to benefit from the tailwinds of tax reform and deregulation put in place over the past two years, and the economy is on track to once again grow near the fastest annual pace in more than a decade. There is no recession on the horizon, and no need for government intervention. The economy is doing just fine on its own. In other news this morning, the Chicago Purchasing Managers Index (a gauge of business sentiment in the region) fell to 49.7 in June from 54.2 in May, while yesterday saw the Kansas City Fed Manufacturing Index decline to 0 in June from 4 in May. Plugging this data into our models suggests the national ISM Manufacturing index, scheduled for release next Monday, is likely to decline to 51.6 for June after 52.1 in May. We think these recent survey declines are largely due to trade-related headlines that have temporarily stoked negative sentiment and fear, and do not suggest a significant slowdown in actual production.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-19	Apr-19	Mar-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.5%	0.1%	4.5%	4.5%	4.1%
Disposable (After-Tax) Income	0.5%	0.5%	0.0%	3.8%	3.8%	3.9%
Personal Consumption Expenditures (PCE)	0.4%	0.6%	1.0%	8.3%	3.2%	4.2%
Durables	1.7%	-0.1%	3.6%	22.6%	2.2%	3.8%
Nondurable Goods	-0.1%	1.2%	1.8%	11.9%	2.4%	3.1%
Services	0.4%	0.5%	0.4%	5.3%	3.7%	4.7%
PCE Prices	0.2%	0.3%	0.2%	2.8%	1.6%	1.5%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.1%	2.0%	1.6%	1.6%
Real PCE	0.2%	0.2%	0.8%	5.4%	1.6%	2.7%

Source: Bureau of Economic Analysis