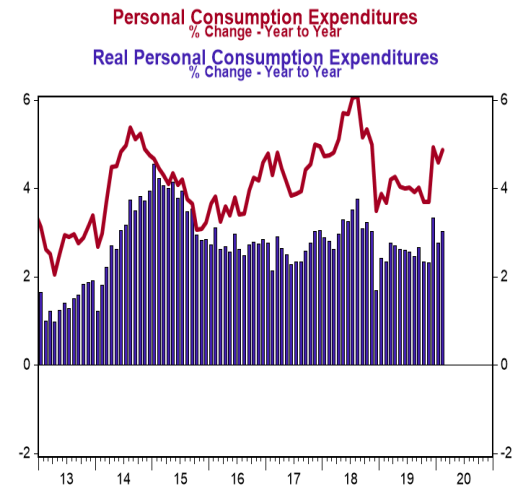


February Personal Income and Consumption

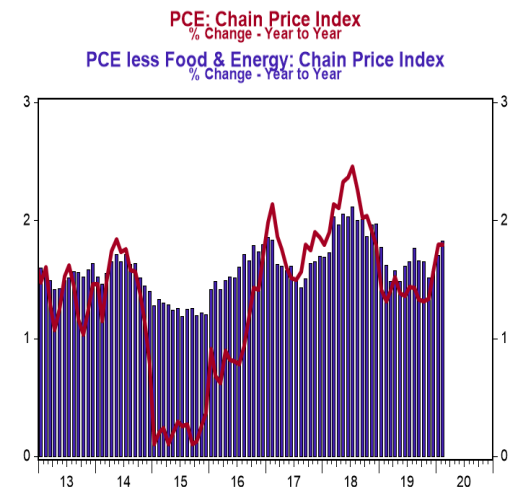
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- Personal income rose 0.6% in February versus a consensus expected 0.4%. Personal consumption increased 0.2% in February (+0.3% with prior revisions), matching consensus expectations. Personal income is up 4.0% in the past year, while spending has increased 4.9%.
- Disposable personal income (income after taxes) rose 0.5% in February and is up 4.0% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.1% in February and is up 1.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in February and is also up 1.8% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in February and is up 3.0% from a year ago.

Implications: Consumer spending is going to get hammered during the Coronavirus Contraction for at least the next couple of months, but at least consumers headed into it with healthy back-to-back gains in their incomes. Personal income rose 0.6% in February, matching January’s strong increase. The gain in January was led by private-sector wages and salaries and higher payments to farmers related to the Department of Agriculture’s market facilitation program. Higher incomes, in turn, continue to boost spending, which rose 0.2% in February. Spending on services led consumer purchases higher in February, while spending on goods declined. With spending up faster than income over the past year, some may be concerned that consumers were already financially stressed prior to the Coronavirus, but that isn’t the case. Households de-levered following the Great Recession, bringing financial obligations (think mortgages, car loans, etc.) to near multi-decade lows as a share of after-tax income. A big part of this was the strong labor market, which had more people working more hours for more pay, fueling the growth in spending. However, now that government-mandated shutdowns of businesses have begun to throw immense numbers of people into unemployment, as yesterday’s unprecedented move in initial claims shows, the next few months of personal income reports are going to get ugly. For the next couple of months, look for any gains in income to come from government transfers to individuals. On the inflation front, PCE prices rose 0.1% in February and were up 1.8% from a year ago. Core prices, which exclude food and energy, were up 0.2% in February and also up 1.8% from a year ago. This is just below the Fed’s target of 2.0%, but don’t expect any normalization in policy anytime soon. The Fed is using every monetary tool it has to support the economy against the Coronavirus, including Quantitative Easing and reducing rates back to near-0%. Expect price declines in March, but a pop in inflation later this year, the result of a combination of loose monetary policy while the government strives to keep people from working in order to combat the Coronavirus. More money chasing fewer goods (and services) is a classic recipe for higher inflation.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-20	Jan-20	Dec-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.6%	0.6%	0.2%	5.6%	4.4%	4.0%
Disposable (After-Tax) Income	0.5%	0.6%	0.2%	5.2%	4.2%	4.0%
Personal Consumption Expenditures (PCE)	0.2%	0.2%	0.4%	3.2%	3.1%	4.9%
Durables	-0.5%	0.6%	-0.3%	-0.8%	0.6%	5.9%
Nondurable Goods	-0.2%	0.1%	0.3%	1.0%	0.0%	4.3%
Services	0.4%	0.2%	0.5%	4.4%	4.4%	4.9%
PCE Prices	0.1%	0.1%	0.3%	2.0%	1.5%	1.8%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.2%	2.3%	1.6%	1.8%
Real PCE	0.1%	0.1%	0.1%	1.1%	1.5%	3.0%

Source: Bureau of Economic Analysis