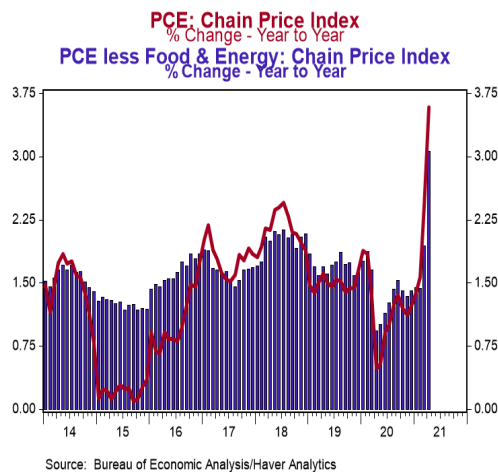
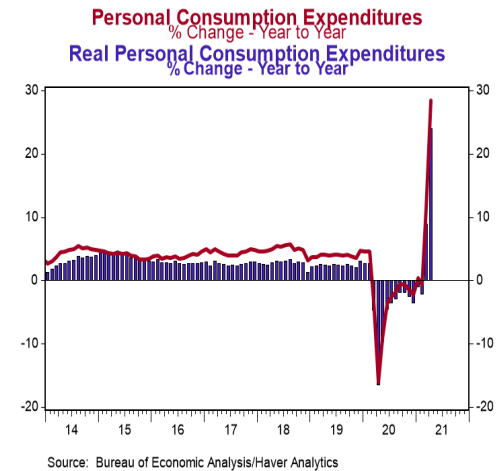


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April Personal Income and Consumption

- Personal income declined 13.1% in April (-12.4% including revisions to prior months), beating the consensus expected -14.2%. Personal consumption rose 0.5% in April (+1.0% including prior month revisions), matching consensus expectations. Personal income is up 0.5% in the past year, while spending has increased 28.5%.
- Disposable personal income (income after taxes) declined 14.6% in April and is down 1.0% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.6% in April and is up 3.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.7% in April and is up 3.1% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in April but is up 24.0% from a year ago.

Implications: Personal income recorded the largest single-month decline in series history (going back to the late 1950s), but you should feel comfortable ignoring it. Why? Because things were just getting back toward normal following massive “stimulus” checks that were sent out in March. A look deeper into the details shows continued progress as the country reopens. We put far more weight on sustainable long-term drivers for the economy than on government stimulus, which is just borrowing spending from the future. On that front, private-sector wages and salaries increased a healthy 1.1% in April as vaccinations and declining case numbers have more states easing restrictions. With the April rise, private-sector wages and salaries are up a staggering 19.4% in the past year (remember, a year ago was during the depths of the stay-at-home orders), but more importantly, also stand 5.5% above pre-COVID levels. The best tailwind for the U.S. economy comes not from Washington D.C., but from the near miraculous scientific achievements that have COVID-19 vaccines being distributed across the country. So far, 361.3 million vaccines have been distributed, with 290.7 million administered. It takes getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus has been an opioid that hides the pain until the real healing takes place. As we get back toward “normal,” wages and salaries will continue to move higher alongside gains in employment. Even without the added tailwind of stimulus checks, spending continued to rise in April, up 0.5%. As spending rose while income fell, the saving rate declined to a still elevated 14.9%. On the inflation front, PCE prices grew 0.6% in April, and are up 3.6% from a year ago. Core prices, which exclude food and energy, rose 0.7% in April and are up 3.1% from a year ago. While the “base effect” of comparing to the abnormally large decline of last April, muddies the picture, a look at price pressures over the past six months (which reduces the “base effect” issue), shows an even more profound rise in inflation, with overall PCE prices up at a 4.3% annualized rate. In other words, inflation also reflects the loose stance of monetary policy and an imbalance in supply and demand. How much inflation is the Fed comfortable with, even if it is in part “transitory,” is [a key question](#) the markets will be watching in the months ahead. In other news this morning, the Chicago PMI – a measure of factory sentiment in that area – rose to 75.2 in May from 72.1 in April, notching the highest reading since 1973. Rising new orders and a growing orders backlog were partially tempered by a decline in the employment index. In other recent news, pending home sales, which are contracts on existing homes, fell 4.4% in April after rising 1.7% in March. Combined, these signal a modest contraction in existing homes sales (counted at closing) in May.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-21	Mar-21	Feb-21	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-13.1%	20.9%	-6.9%	-8.7%	15.4%	0.5%
Disposable (After-Tax) Income	-14.6%	23.4%	-7.8%	-10.8%	16.3%	-1.0%
Personal Consumption Expenditures (PCE)	0.5%	4.7%	-1.0%	17.7%	13.2%	28.5%
Durables	0.5%	14.5%	-4.4%	46.5%	37.5%	74.8%
Nondurable Goods	-1.3%	6.9%	-2.2%	13.5%	14.2%	24.4%
Services	1.1%	2.1%	0.1%	14.1%	8.6%	23.0%
PCE Prices	0.6%	0.6%	0.3%	5.9%	4.3%	3.6%
"Core" PCE Prices (Ex Food and Energy)	0.7%	0.4%	0.1%	4.9%	3.4%	3.1%
Real PCE	-0.1%	4.1%	-1.3%	11.2%	8.5%	24.0%

Source: Bureau of Economic Analysis