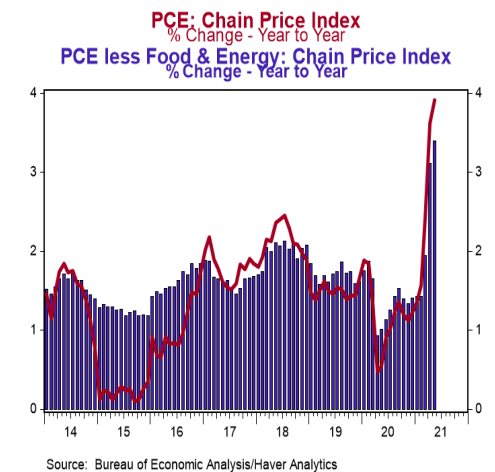
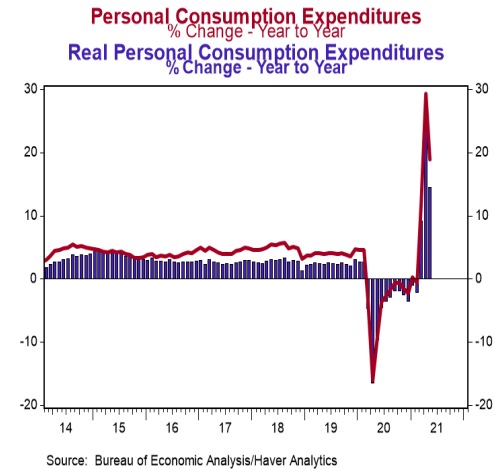


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May Personal Income and Consumption

- Personal income declined 2.0% in May (-1.8% including revisions to prior months), beating the consensus expected -2.5%. Personal consumption was unchanged in May (+0.6% including prior month revisions), versus a consensus expected +0.4%. Personal income is up 2.8% in the past year, while spending has increased 18.9%.
- Disposable personal income (income after taxes) declined 2.3% in May but is up 1.5% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in May and is up 3.9% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.5% in May and is up 3.4% in the past year.
- After adjusting for inflation, “real” consumption declined 0.4% in May but is up 14.5% from a year ago.

Implications: Personal income continued to decline in May, as rising wages and salaries couldn’t fully offset the slowdown in government payments out of Washington. Stimulus checks are behind us and unemployment benefits continue to decline as we get back toward normal, a sign of progress, not reason for concern. A look deeper into the details shows continued healing 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 0.8% in May as vaccinations and declining case numbers continue the lifting of restrictions, allowing supply to catch up toward demand. With the May rise, private-sector wages and salaries are up a massive 15.7% in the past year, but, more importantly, also stand 6.3% above pre-COVID levels. It was always going to take getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus was simply an opioid to hide the pain until the real healing could take place. As we get back toward “normal,” wages and salaries will continue to move higher alongside gains in employment. While overall income declined in May, spending remained unchanged (though up 0.6% when including upward revisions to prior months). For the month, with spending flat while income fell, the saving rate declined to a still elevated 12.4%. On the inflation front, PCE prices grew 0.4% in May, and are up 3.9% from a year ago. Core prices, which exclude food and energy, rose 0.5% in May and are up 3.4% from a year ago. While the massive impact of shutdowns last year will continue to muddy the inflation picture for some time, a look at price pressures over the past six months (which reduces the “base effect” impact), shows an even more profound rise in inflation, with overall PCE prices up at a 5.3% annualized rate. In other words, inflation also reflects the loose stance of monetary policy in addition to the imbalance in supply and demand. Since February 2020 (pre-COVID), PCE prices are up at a 2.6% annual rate, which is above the Fed’s 2.0% long-term target. In recent manufacturing news, the Kansas City Fed index – a measure of factory sentiment in that area – rose to 27 in June from 26 in May. The indices for employment, orders backlogs, and supplier delivery times rose while production and shipments moderated. Look for another strong reading from the national ISM report next week.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | May-21 | Apr-21 | Mar-21 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | -2.0% | -13.1% | 20.9% | 12.6% | 13.3% | 2.8% |
| Disposable (After-Tax) Income | -2.3% | -14.6% | 23.4% | 12.5% | 13.7% | 1.5% |
| Personal Consumption Expenditures (PCE) | 0.0% | 0.9% | 5.0% | 26.2% | 16.1% | 18.9% |
| Durables | -2.8% | 1.7% | 14.9% | 66.6% | 40.4% | 33.7% |
| Nondurable Goods | -0.4% | -0.2% | 7.8% | 31.9% | 19.1% | 17.2% |
| Services | 0.7% | 1.1% | 2.3% | 17.9% | 11.0% | 16.9% |
| PCE Prices | 0.4% | 0.6% | 0.6% | 6.8% | 5.3% | 3.9% |
| "Core" PCE Prices (Ex Food and Energy) | 0.5% | 0.7% | 0.4% | 6.6% | 4.6% | 3.4% |
| Real PCE | -0.4% | 0.3% | 4.4% | 18.2% | 10.3% | 14.5% |

Source: Bureau of Economic Analysis