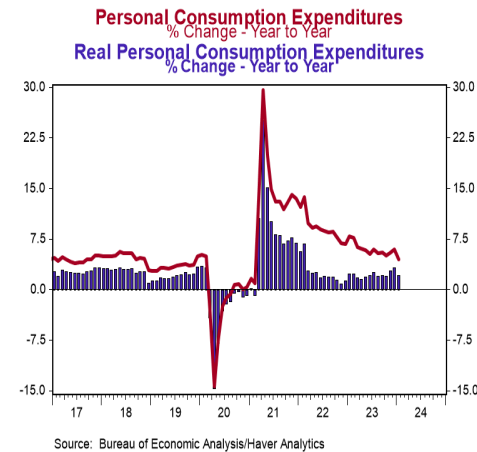


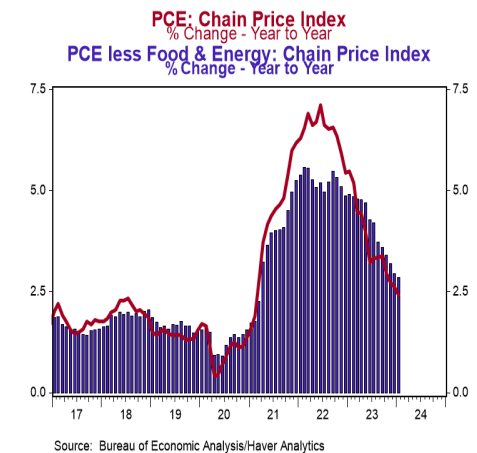
January Personal Income and Consumption

Andrew Opdyke, CFA – Senior Economist
 Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist

- Personal income rose 1.0% in January (+1.1% including revisions to prior months), easily beating the consensus expected +0.4%. Personal consumption rose 0.2% in January (+0.3% including revisions to prior months), matching consensus expectations. Personal income is up 4.8% in the past year, while spending has increased 4.5%.
- Disposable personal income (income after taxes) rose 0.3% in January (+0.4% including revisions to prior months) and is up 4.5% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in January and is up 2.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.4% in January and is up 2.8% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in January but is up 2.1% from a year ago.



Implications: Incomes and spending started 2024 on a positive note, but a dive into the details is not as rosy as the headlines. On the inflation front, PCE prices – the Federal Reserve’s preferred measure of inflation – were up 0.3% in January, bringing the twelve-month comparison to 2.4%. This was faster than the 0.2% increase in spending, which means real (inflation-adjusted) spending declined 0.1% in January. “Core” prices, which exclude the ever-volatile food and energy categories, rose 0.4% in January and are up 2.8% versus a year ago. The Fed has prioritized a subset of inflation dubbed the “Super Core,” which is services only (no goods), excluding food, energy, and housing. That measure rose 0.6% in January and is up 3.5% versus a year ago. All these measures remain above the Fed’s 2.0% target and, given ongoing shipping disruptions in the Red Sea that are delaying deliveries and have elevated shipping costs, we would not be surprised to see volatility in the inflation numbers in the months ahead. The best news in the report was that personal income rose a strong 1.0% in January. But, unfortunately, nearly half the January rise came from a 3.2% annual cost-of-living adjustments for social security and other government benefits. And even the gains that came from employee compensation showed a less than ideal trend. Private industry wages and salaries were up a moderate 0.3% in January and are up 5.4% in the past year. Meanwhile, government pay was up 0.6% in January and is up 7.8% in the past year, hovering near the highest levels seen in three decades. We don’t think the growth in government pay is sustainable or good for the overall US economy. Also, incomes in January were bolstered by an unusual surge in dividend payments for the month. Consumer spending rose 0.2% in January (but inflation was up 0.3% for the month), as rising spending on services more than offset a decline in spending on goods. The 1.0% rise in service sector spending is the largest single monthly gain since last January, as consumers picked up spending on housing and utilities. Services spending is up 6.3% in the past year. Spending on goods fell 1.2% in January – led by autos and gasoline – but remain up 1.0% in the past year. In employment news this morning, initial claims for jobless benefits rose by 13,000 last week to 215,000, while continuing claims rose by 45,000 to 1.905 million. These figures suggest moderate job growth in February.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-24	Dec-23	Nov-23	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	1.0%	0.3%	0.3%	6.9%	5.5%	4.8%
Disposable (After-Tax) Income	0.3%	0.3%	0.4%	4.1%	4.1%	4.5%
Personal Consumption Expenditures (PCE)	0.2%	0.7%	0.4%	5.3%	5.0%	4.5%
Durables	-1.9%	1.1%	0.2%	-2.7%	-2.8%	-1.7%
Nondurable Goods	-0.8%	0.5%	-0.3%	-2.7%	2.6%	2.5%
Services	1.0%	0.7%	0.6%	9.4%	7.2%	6.3%
PCE Prices	0.3%	0.1%	0.0%	1.8%	2.5%	2.4%
"Core" PCE Prices (Ex Food and Energy)	0.4%	0.1%	0.1%	2.6%	2.5%	2.8%
Real PCE	-0.1%	0.6%	0.4%	3.4%	2.4%	2.1%

Source: Bureau of Economic Analysis