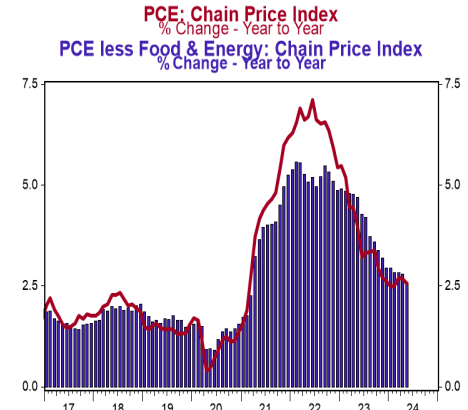


## May Personal Income and Consumption

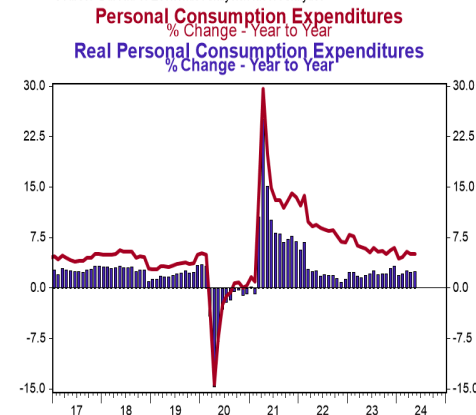
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- Personal income rose 0.5% in May (+0.4% including revisions to prior months), versus a consensus expected 0.4%. Personal consumption rose 0.2% in May (unchanged including revisions), lagging the consensus expected +0.3%. Personal income is up 4.6% in the past year, while spending has increased 5.1%.
- Disposable personal income (income after taxes) rose 0.5% in May and is up 3.7% from a year ago.
- The overall PCE deflator (consumer prices) was unchanged in May and is up 2.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in May and is up 2.6% in the past year.
- After adjusting for inflation, “real” consumption rose 0.3% in May and is up 2.4% from a year ago.

**Implications:** The Fed will welcome today’s personal income and spending report showing healthy consumer activity and a breather on inflation, but we wouldn’t get too caught up on a single month’s report. PCE prices – the Federal Reserve’s preferred measure of inflation – were unchanged in May, bringing the twelve-month comparison to 2.6%. But don’t go popping Champagne quite yet, remember that PCE prices rose by 0.3% or more in each of the prior four months, and prices are running above a 3% annualized pace this year through May. “Core” prices, which exclude the ever-volatile food and energy categories, rose 0.1% in May and are also up 2.6% versus a year ago. The Fed has prioritized a subset of inflation dubbed the “Supercore,” which is services only (no goods), excluding food, energy, and housing. That measure rose 0.1% in May, is up 3.4% versus a year ago, and has remained stubbornly around 3.5% on a year-ago basis for the past seven months. No matter which measure they choose, or how they try to spin it, inflation remains above the Fed’s target. Transitioning to a focus on how consumers fared in May shows some positive momentum. Personal income rose 0.5% in May and is up 4.6% in the past year. Private-sector wages and salaries led the way, up 0.7% on the month and up 4.5% in the past year. Unfortunately government activity continues to run hot as well, with government transfer payments rising 0.3% in May while government pay rose 0.5% and is up 8.5% in the past year, matching the largest twelve-month increase in more than three decades. We don’t think the growth in government pay – or massive government deficit spending – is sustainable or good for the US economy. Consumer spending rose a more modest 0.2% in May, with both good and services showing gains. When adjusting for inflation, consumption rose 0.3%. We are closely watching the service sector as the driver of consumer activity both now and in the near future, and we expect activity to temper as higher interest rates and continued inflation pressures take their toll. In other recent news on the manufacturing front, the Kansas City Fed Manufacturing Index, a measure of factory activity in that region, fell to -8 in June from -2 in May, following similar negative readings earlier this week from the Dallas and Richmond Feds. On the housing front, pending home sales, which are contracts on existing homes, fell 2.1% in May following a 7.7% decline in April. Plugging these figures into our model suggests existing home sales, which are counted at closing, will drop in July, probably to the lowest level so far this year.



Source: Bureau of Economic Analysis/Haver Analytics



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Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-24	Apr-24	Mar-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.5%</b>	0.3%	0.5%	5.1%	6.0%	4.6%
<b>Disposable (After-Tax) Income</b>	<b>0.5%</b>	0.3%	0.5%	4.9%	4.7%	3.7%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.2%</b>	0.1%	0.7%	4.3%	4.7%	5.1%
<b>Durables</b>	<b>0.3%</b>	-0.9%	0.1%	-2.3%	-2.5%	-1.6%
<b>Nondurable Goods</b>	<b>0.2%</b>	-0.2%	1.2%	4.7%	1.1%	3.2%
<b>Services</b>	<b>0.3%</b>	0.4%	0.6%	5.3%	7.1%	6.8%
<b>PCE Prices</b>	<b>0.0%</b>	0.3%	0.3%	2.4%	3.0%	2.6%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.3%	0.3%	2.7%	3.2%	2.6%
<b>Real PCE</b>	<b>0.3%</b>	-0.1%	0.3%	1.8%	1.6%	2.4%

Source: Bureau of Economic Analysis