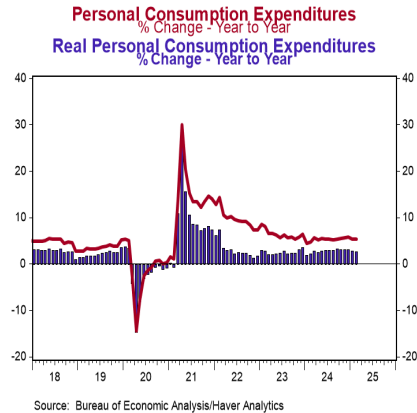
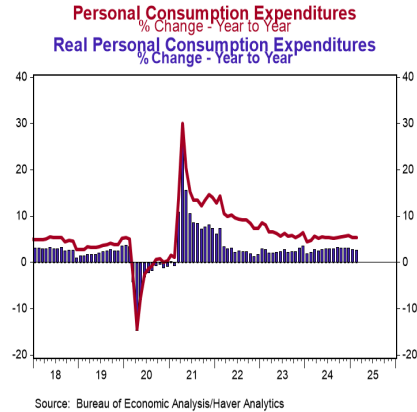


February Personal Income and Consumption

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- Personal income jumped 0.8% in February (+0.4% including downward revisions to prior months), versus the consensus expected +0.4%. Personal consumption rose 0.4% (+0.3% including revisions to prior months), lagging the consensus expected +0.5%. Personal income is up 4.6% in the past year, while spending has increased 5.3%.
- Disposable personal income (income after taxes) rose 0.9% in February and is up 4.4% from a year ago.
- The overall PCE deflator (consumer prices) increased 0.3% in February and is up 2.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.4% in February and is up 2.8% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in February and is up 2.7% from a year ago.



Implications: Personal income is off to a hot start in 2025, jumping 0.8% in February following a strong 0.7% rise in January. Unfortunately the gains are largely being driven by government transfers. In January, this was due to cost-of-living adjustments to Social Security benefits; in February it was premium tax credits for health insurance purchased through the Health Insurance Marketplace (Obamacare). Government benefit payments to individuals are up 7.9% in the past year; excluding COVID, that’s near the largest 12-month increase in more than a decade. At the same time, pay in the public sector rose 0.4% in February and is up 5.8% in the past year, versus private-sector wages and salaries, which were up 0.5% in February but up a more modest 3.2% in the past year. We don’t think the growth in government pay – or massive government deficit spending – is either sustainable or good for the US economy, which is why we’re hoping policy changes in DC represent a shift in thinking on the growth of government. Long term, it’s the growth in private-sector earnings that would better sustain the economy. Personal consumption, meanwhile, rose 0.4% in February, but that was largely the result of inflation. “Real” consumption rose just 0.1% in February following a 0.6% decline in January and should be roughly unchanged for Q1 versus Q4. In nominal terms, spending on goods increased 0.9% in February and is up 4.0% from a year ago, while spending on services rose 0.2% in February and is up a strong 5.9% in the past year. On the inflation front, PCE prices increased 0.3% in February and are up 2.5% in the past year. That’s very close to the 2.6% increase in the year ending February 2024, which means the Fed has made almost no progress in the inflation flight in the past year. “Core” prices (which exclude food and energy) rose 0.4% in February and are up 2.8% versus a year ago. Some analysts claim official inflation figures are running too high because of rents, but the “SuperCore” version of PCE prices, which excludes all goods, energy services, and rents, is up 3.3% in the past year, even worse than headline inflation. The Fed last week reiterated plans to be patient on any further rate cuts as they watch how the economy responds to actions out of DC, but risks remain that any signs of economic weakness – as the pain of reform is felt before the economic gain – could translate to an overreaction from the Fed that risks pushing inflation higher. In other recent news, pending home sales, which are contracts on existing homes, rose 2.0% in February following a 4.6% decline in January, suggesting a modest decline in existing home sales (counted at closing) in March. On the manufacturing front, the Kansas City Fed Manufacturing Index, a measure of factory sentiment in that region, rose to a still negative -2 in March from -5 in February.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-25	Jan-25	Dec-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.8%	0.7%	0.3%	7.4%	6.1%	4.6%
Disposable (After-Tax) Income	0.9%	0.7%	0.4%	7.8%	6.2%	4.4%
Personal Consumption Expenditures (PCE)	0.4%	-0.3%	0.9%	4.1%	5.4%	5.3%
Durables	1.4%	-4.3%	1.5%	-5.9%	5.2%	3.5%
Nondurable Goods	0.6%	-0.2%	1.2%	6.8%	4.6%	4.2%
Services	0.2%	0.4%	0.6%	5.0%	5.7%	5.9%
PCE Prices	0.3%	0.3%	0.3%	3.9%	3.1%	2.5%
"Core" PCE Prices (Ex Food and Energy)	0.4%	0.3%	0.2%	3.6%	3.1%	2.8%
Real PCE	0.1%	-0.6%	0.6%	0.2%	2.3%	2.7%

Source: Bureau of Economic Analysis