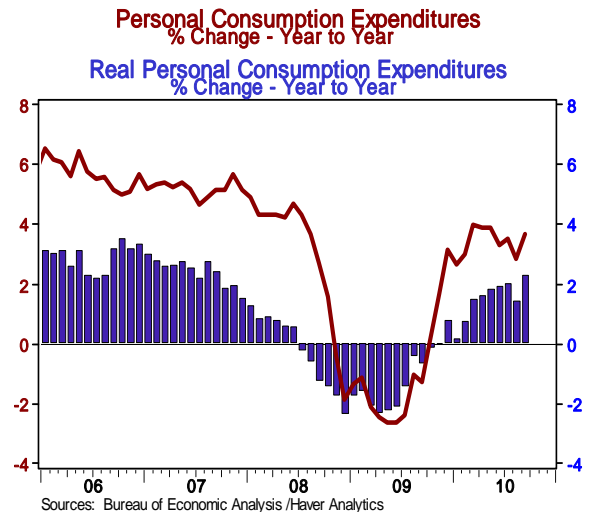


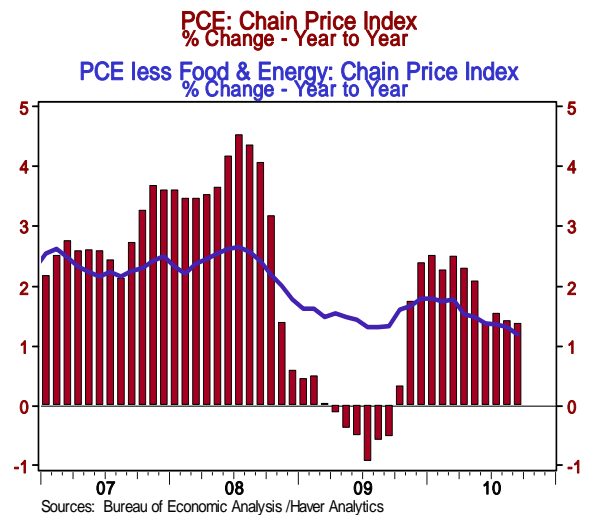
# SEPTEMBER PERSONAL INCOME AND CONSUMPTION

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- Personal income declined 0.1% in September while personal consumption increased 0.2%, both falling short of consensus expectations. In the last six months, personal income is up at a 2.6% annual rate while spending is up at a 2.5% rate.
- Disposable personal income (income after taxes) was down 0.2% in September but is up at a 2.3% annual rate in the past six months. The decline in September was largely due to a drop in unemployment benefits, which followed a temporary spike upward in August.
- The overall PCE deflator (consumer inflation) increased 0.1% in September and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in September and is up 1.2% since last year.
- After adjusting for inflation, “real” consumption was up 0.1% in September (0.3% including upward revisions to prior months) and is up at a 2.0% annual rate in the past six months.



**Implications:** Real (inflation-adjusted) consumer spending grew for the fifth month in a row in September, rising 0.3% including upward revisions to prior months. Higher spending is a result of three factors. First, households are not paying down their debts as rapidly as they did during the recession. Second, earnings are rising in the private sector. And third, due to low interest rates and prior debt reductions, households no longer need to use a large share of their income to service their remaining debts or meet other monthly obligations (rent, car leases,...etc.). Although personal income declined in September this was largely due to a drop in unemployment benefits, after an artificial spike in benefits in August. Private-sector wages & salaries increased only 0.1% in September, but that follows two straight strong 0.5% gains in July and August. (This is exactly the kind of normal variation in data we saw in Q2.) In the past three months, private wages & salaries are up at a 4.2% annual rate, which is 2.2% faster than inflation. On the inflation front, consumption prices are up only 1.4% versus a year ago, 1.2% if we exclude food and energy. The latter measure – “core” inflation – is the excuse the Federal Reserve is using to consider embarking on another round of quantitative easing later this week.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-10	Aug-10	Jul-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	-0.1%	0.4%	0.2%	1.8%	2.6%	3.1%
<b>Disposal (After-Tax) Income</b>	-0.2%	0.4%	0.0%	1.1%	2.3%	3.0%
<b>Personal Consumption Expenditures (PCE)</b>	0.2%	0.5%	0.5%	4.6%	2.5%	3.7%
<b>Durables</b>	0.7%	0.0%	1.1%	7.7%	0.1%	8.1%
<b>Nondurable Goods</b>	0.1%	1.4%	0.5%	8.1%	0.7%	3.8%
<b>Services</b>	0.1%	0.3%	0.3%	3.0%	3.5%	3.0%
<b>PCE Prices</b>	0.1%	0.2%	0.2%	1.9%	0.5%	1.4%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.0%	0.1%	0.1%	0.7%	0.7%	1.2%
<b>Real PCE</b>	0.1%	0.3%	0.2%	2.6%	2.0%	2.3%

Source: Bureau of Economic Analysis