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Data Watch

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May Personal Income and Consumption

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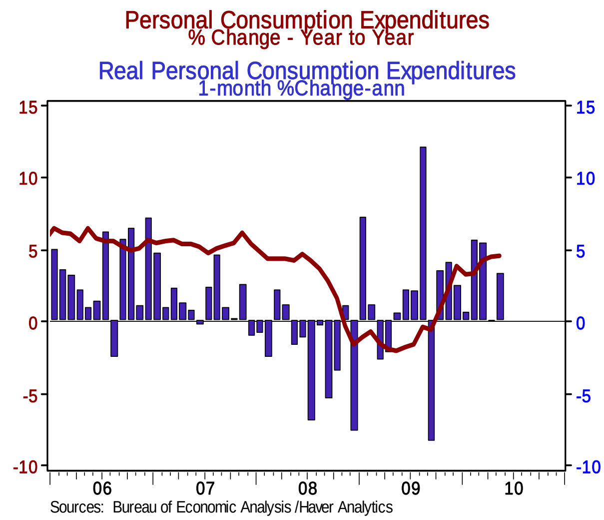
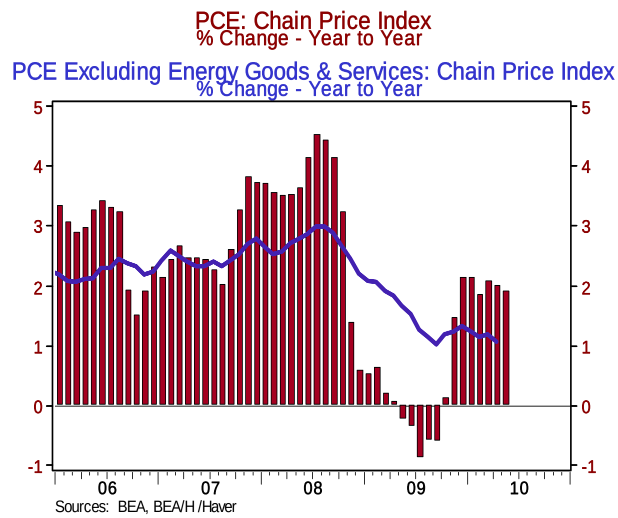
- Personal income was up 0.4% in May, just below the consensus expected gain of 0.5%. Personal consumption was up 0.2% versus a consensus expected 0.1%. In the last six months, personal income is up at a 4.6% annual rate while spending is up at a 3.8% rate.

- Disposable personal income (income after taxes) was up 0.4% in May (0.6% including revisions to prior months), with broad-based gains outside of government transfer payments.

- The overall PCE deflator (consumer inflation) was unchanged in May and is up at a 0.9% annual rate in the past six months. The "core" PCE deflator, which excludes food and energy, was up 0.2% in May and is up at a 1.1% rate in the past six months.

- After adjusting for inflation, "real" consumption was up 0.3% in May and is up at a 2.9% annual rate in the past six months. If "real" consumer spending is unchanged in June, it will still be up at a 2.5% annual rate in Q2 versus the Q1 average.





Implications: Consumer spending continues to grow, not because of government handouts but because incomes are rising in the private sector. In the past three months, "real" (inflation-adjusted) consumer spending is up at a 2.8% annual rate. Meanwhile, real personal income *excluding government transfer payments* (such as unemployment insurance, Social Security, and Medicare) is up at a 4.7% rate. Earlier this month retail sales were reported -1.2% and some analysts used this to say we were in a "soft patch." What they missed is that spending on services is rising rapidly and auto sales were better than the retail report suggested. We expect continued healthy growth in consumer spending. The financial obligations ratio measures the share of after-tax income that consumers need to make recurring payments (mortgages, rent, car loans/leases, student loans, credit cards,…etc.). This ratio peaked at 18.9% in early 2008 and is now down to 17.4%, very close to the 30-year average of 17.2%. In particular, the obligations of renters are the lowest since 1993 and the consumer (non-mortgage) obligations of homeowners are the lowest since 1995. Only mortgage obligations remain elevated, and those are falling quickly relative to income. A combination of higher incomes and a smaller share needed to service our obligations means consumers have more money to spend.

Personal Income and Spending *All Data Seasonally Adjusted*	May-10	Apr-10	Mar-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	0.5%	0.4%	5.6%	4.6%	1.6%
Disposal (After-Tax) Income	**0.4%**	0.6%	0.5%	6.0%	4.6%	1.7%
Personal Consumption Expenditures (PCE)	**0.2%**	0.0%	0.6%	3.3%	3.8%	4.6%
Durables	**0.8%**	-0.7%	3.7%	16.2%	8.7%	9.1%
Nondurable Goods	**-0.9%**	-0.4%	0.2%	-4.1%	1.3%	6.7%
Services	**0.5%**	0.3%	0.2%	3.9%	3.8%	3.2%
PCE Prices	**0.0%**	0.0%	0.1%	0.4%	0.9%	1.9%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.1%	0.1%	1.5%	1.1%	1.3%
Real PCE	**0.3%**	0.0%	0.4%	2.8%	2.9%	2.6%

Source: Bureau of Economic Analysis