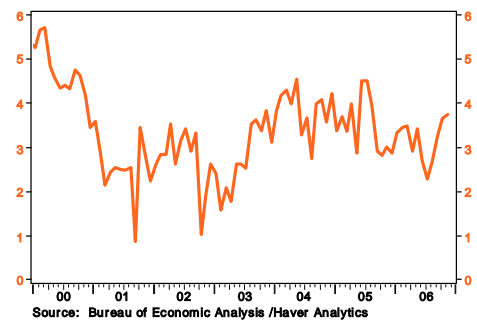


NOVEMBER PERSONAL INCOME AND CONSUMPTION

Chief Economist - Brian S. Wesbury
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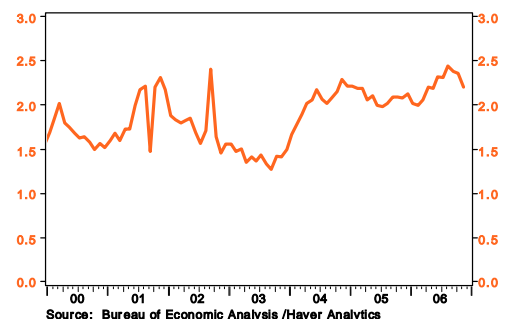
- Personal income increased 0.3% in November, slightly less than the consensus expected. Disposable income, which is income after taxes, also increased 0.3%.
- Personal spending increased 0.5% in November, also slightly less than the consensus expected. Spending on goods, both durables and non-durables, was strong, while the growth of services spending slowed somewhat from recent months.
- Consumption (PCE) prices were unchanged in November and are up 1.9% versus last year. "Core" consumption prices, which exclude food and energy, were also unchanged and are up 2.2% versus last year, each figure slightly less than expected. After adjusting for inflation, real consumer spending increased 0.5% in November and was revised up for both September and October. Real consumer spending has increased 5.3% at an annual rate in the past three months.

Real Consumption and Expenditures
% Change - Year to Year SAAR, Bil.Chn.2000\$



Implications: The consumer is not losing any steam. Even if inflation-adjusted consumer spending is flat in December, real consumption for the fourth quarter will grow 4% at an annual rate – a sharp acceleration from its 2.8% growth rate in the third quarter. More likely, spending will rise again in December and growth for Q4 will be in the 4¼-4½% range. With each piece of data we are growing more confident of our 3.1% Q4 real GDP forecast. And while inflation news has improved in recent months, it is premature for the Fed to declare victory. On a year-over-year basis "core" PCE prices slowed to a 2.2% growth rate in November from a 2.4% rate of increase in October. But as we drop off relatively small increases of a year ago (from last December, January and February), the year-over-year rate of change in "core" PCE prices should re-accelerate in the months ahead. We continue to believe that both economic growth and inflation will come in on the high side of the consensus forecast.

'Core' PCE Inflation
% Change - Year to Year SA, 2000=100



Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Nov-06	Oct-06	Sep-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income	0.3%	0.3%	0.5%	4.7%	5.6%	5.9%
Disposal (After-Tax) Income	0.3%	0.2%	0.5%	4.2%	5.6%	5.1%
Personal Consumption Expenditures (PCE)	0.5%	0.3%	0.0%	3.1%	4.1%	5.7%
Durables	1.2%	0.6%	0.3%	8.8%	6.5%	6.7%
Nondurable Goods	0.7%	-0.6%	-1.3%	-4.5%	0.1%	5.2%
Services	0.4%	0.6%	0.5%	6.0%	5.6%	5.8%
PCE Prices	0.0%	-0.2%	-0.3%	-2.1%	0.4%	1.9%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.2%	0.2%	1.8%	2.1%	2.2%
Real PCE	0.5%	0.5%	0.3%	5.3%	3.7%	3.8%

Source: Bureau of Economic Analysis