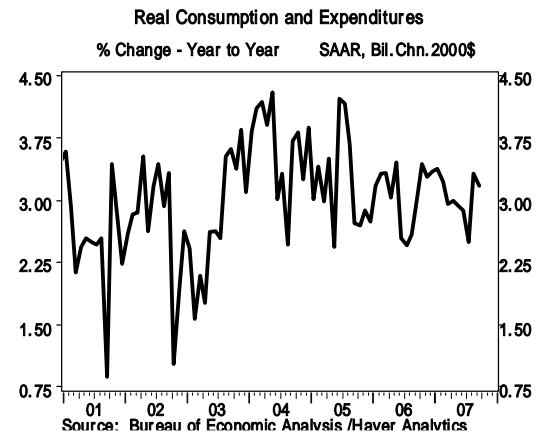


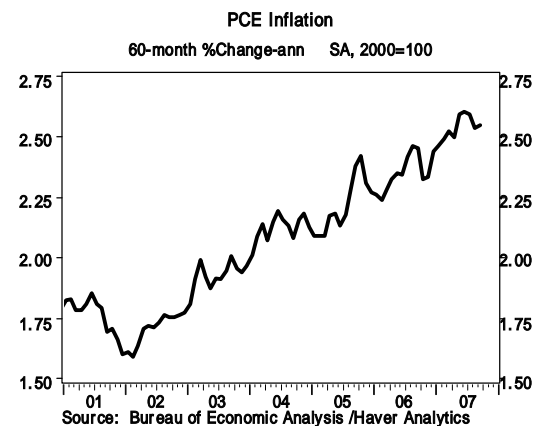
SEPTEMBER PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.4% in September while personal consumption increased 0.3%. The consensus expected gain for each was 0.4%.
- Disposable personal income (income after taxes) increased 0.4% in September and was up 6.3% versus a year ago.
- The overall PCE deflator (consumer price inflation) rose 0.2% in September and was up 2.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in September and was up 1.8% versus a year ago.
- After adjusting for inflation, real consumption was up 0.1% in September and up 3.2% versus a year ago.



Implications: Yesterday’s GDP report included figures on personal income and spending for the full third quarter, so today’s income and spending report for September provided very little new information. On a quarterly basis, wages and salaries are up 7.1% versus a year ago, the best year-to-year gain in seven years. Real (inflation-adjusted) spending was up 0.1% in September, an understandable off-month given the 0.6% surge in August. At present, we assume real consumption will grow at a 0.25% monthly rate the next three months, generating a 3% annual rate for Q4 as a whole. In turn, this supports our real GDP growth rate forecast of 3% for Q4. Unlike most other economists we fear inflation, not slow growth, despite today’s seemingly benign 1.8% year-to-year increase in the “core” PCE price index. The overall PCE price index is up 2.4% versus last year and up at a 3% annual rate so far in 2007. In other news this morning, new claims for unemployment insurance fell 6,000 last week to 327,000. Continuing claims increased 65,000 for the week ending October 13 but were revised down 7,000 for the previous week, which also happens to be the week the Labor Department surveys employers regarding monthly payrolls. The revision bolsters support for our forecast of a 110,000 increase in payroll jobs in October (reported tomorrow).



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-07	Aug-07	Jul-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.4%	0.4%	0.5%	5.6%	4.7%	6.8%
Disposal (After-Tax) Income	0.4%	0.5%	0.6%	6.0%	4.7%	6.3%
Personal Consumption Expenditures (PCE)	0.3%	0.5%	0.4%	4.9%	5.3%	5.6%
Durables	0.2%	2.5%	-0.5%	9.0%	3.4%	3.7%
Nondurable Goods	0.6%	-0.6%	0.7%	2.9%	5.1%	5.6%
Services	0.2%	0.7%	0.4%	5.2%	5.7%	6.0%
PCE Prices	0.2%	0.0%	0.1%	1.2%	2.4%	2.4%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.2%	1.9%	1.7%	1.8%
Real PCE	0.1%	0.6%	0.3%	3.7%	2.8%	3.2%

Source: Bureau of Economic Analysis