

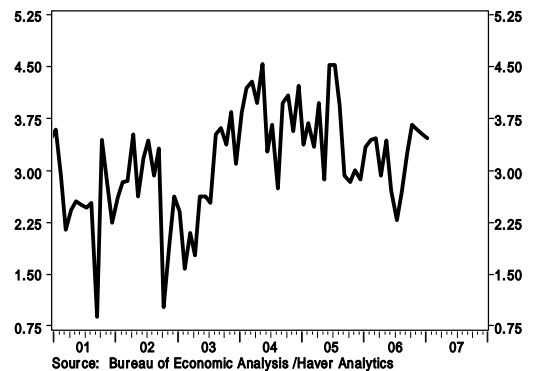
JANUARY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 1.0% in January, beating the consensus expectation of a 0.3% gain. Personal income is up 5.3% versus a year ago. Disposable income, which is income after taxes, increased 0.8% and is up 4.8% versus a year ago.
- Personal spending increased 0.5% in January, slightly more than the consensus expected. Spending was strong for both durable goods and services.
- Consumption (PCE) prices rose 0.2% in January and were up 2.0% versus last year. "Core" consumption prices, which exclude food and energy, were up 0.3% and were up 2.3% versus a year ago. After adjusting for inflation, real consumption was up 0.3% and has increased 3.5% versus last year. Real consumer spending has increased 4.5% at an annual rate in the past three months.

Real Consumption and Expenditures

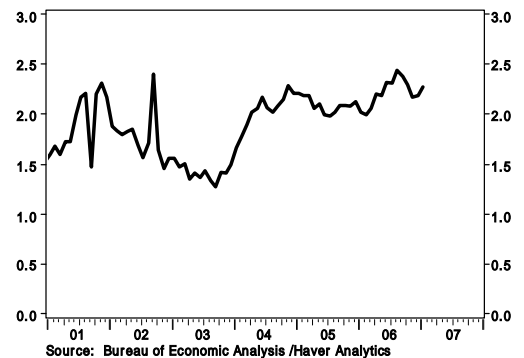
% Change - Year to Year SAAR, Bil.Chn.2000\$



Implications: Income shot up in January mostly due to a large increase in wages and salaries in the service industry, probably related to bonuses in the financial sector. Meanwhile, consumption continues to power ahead despite the fear in some quarters that the decline in housing would curb spending. Consumption looks set to rise in the 3.5% to 4% range in the first quarter of 2007. We remain concerned about higher inflation. Today's report showed core PCE prices (the measure of inflation most frequently mentioned by the Federal Reserve) up 0.3% and 2.3% versus last year, still higher than the 1% to 2% range Fed Chairman Bernanke has in the past noted as his "comfort zone." In other news this morning, initial claims for unemployment insurance came in at 338,000 last week, higher than expected. More importantly, continuing claims for jobless benefits increased to 2.640 million from 2.506 million the previous week. This was the reading for the week in February used for the payroll jobs survey (data out March 9) and suggests a soft payroll report for the month.

'Core' PCE Inflation

% Change - Year to Year SA, 2000=100



Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Jan-07	Dec-06	Nov-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	1.0%	0.5%	0.3%	7.4%	6.2%	5.3%
Disposal (After-Tax) Income	0.8%	0.5%	0.3%	6.2%	5.6%	4.8%
Personal Consumption Expenditures (PCE)	0.5%	0.7%	0.4%	6.9%	4.2%	5.5%
Durables	0.6%	0.4%	0.6%	6.3%	1.0%	1.9%
Nondurable Goods	0.3%	1.7%	0.3%	9.5%	1.3%	4.4%
Services	0.7%	0.4%	0.4%	5.7%	6.3%	6.8%
PCE Prices	0.2%	0.3%	0.0%	2.3%	0.6%	2.0%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.1%	0.1%	1.8%	2.1%	2.3%
Real PCE	0.3%	0.4%	0.4%	4.5%	3.6%	3.5%

Source: Bureau of Economic Analysis