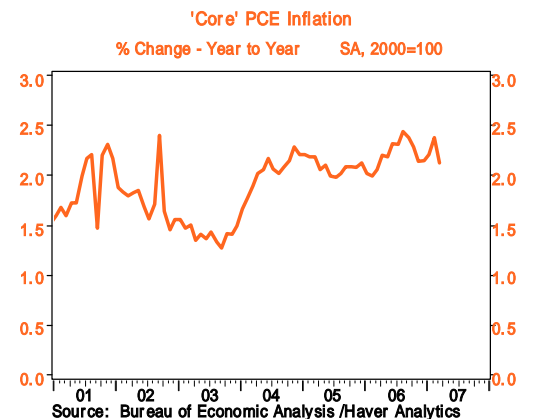
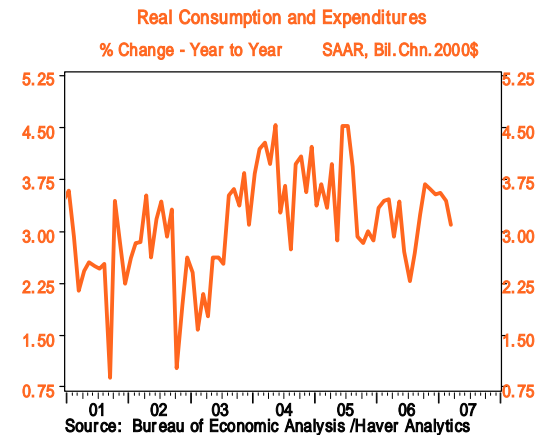


MARCH PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.7% in March, slightly better than the consensus expected 0.6% gain. Personal consumption increased 0.3% compared to a consensus expected 0.5%.
- Personal income was up 5.7% versus a year ago. Disposable income (income after taxes) increased 0.7% and was up 5.3% versus a year ago. Consumption was unchanged for durable goods, slightly down for services (after last month's outsized 1.1% gain), but way up for nondurable goods.
- Consumption (PCE) prices rose 0.4% in March and are up 2.4% versus last year. Core consumption prices, which exclude food and energy, were unchanged and up 2.1% versus a year ago.
- After adjusting for inflation, real consumption was down 0.2% in March, the weakest in eighteen months. Real consumption was revised up for both January and February, however, and is still up 3.1% versus March 2006.



Implications: Income gains were strong in March, with wages and salaries up 0.7% in the private sector, including a 1% gain in goods-producing industries. Real consumption was weak in March, however, the 3.8% annualized gain in the first quarter (reported on Friday) was apparently all achieved in January and February. The timing of consumption in the first quarter suggests real consumption will grow at about a 2 to 2.5% rate in the second quarter. In turn, we believe real GDP growth will be roughly 3% in Q2, as the (temporary) slowdown in consumption is offset by better contributions to GDP from business investment, housing, government, and trade. On the inflation front, we were not as pleased as other analysts by unchanged core PCE prices. Un-rounded, core prices were up 0.049%. Although the change from last year is 2.1% (which is close to the Fed's "comfort range" of 1% to 2%) this measure of inflation has teased 2% a few times in the past few years before jumping back up. Also, overall PCE prices were up 0.4%, the most in eleven months, and are up 2.4% versus a year ago.

Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Mar-07	Feb-07	Jan-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.7%	0.7%	1.1%	10.3%	7.4%	5.7%
Disposal (After-Tax) Income	0.7%	0.6%	0.9%	9.1%	6.5%	5.3%
Personal Consumption Expenditures (PCE)	0.3%	0.7%	0.6%	6.5%	6.1%	5.5%
Durables	0.0%	-0.4%	1.1%	3.0%	3.8%	2.4%
Nondurable Goods	1.0%	0.4%	0.2%	6.6%	6.2%	5.4%
Services	-0.1%	1.1%	0.7%	7.2%	6.5%	6.2%
PCE Prices	0.4%	0.4%	0.2%	4.2%	2.3%	2.4%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.3%	0.2%	2.4%	1.9%	2.1%
Real PCE	-0.2%	0.3%	0.4%	2.2%	3.7%	3.1%

Source: Bureau of Economic Analysis