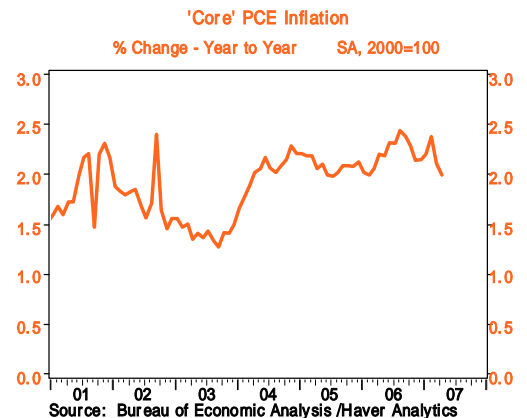
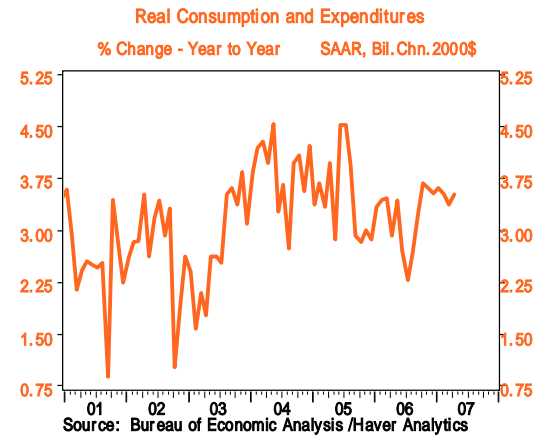


APRIL PERSONAL INCOME AND CONSUMPTION

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- Personal income declined 0.1% in April versus a consensus expected increase of 0.3%. Personal consumption increased 0.5% compared to a consensus expected 0.4%.
- Disposable income (income after taxes) declined 0.1% in April and was up 5.6% versus a year ago. Consumption in April was down 0.2% for durables, but up 0.3% for nondurable goods and 0.8% for services.
- Consumption (PCE) prices rose 0.3% in April and are up 2.2% versus last year. Core consumption prices, which exclude food and energy, were up 0.1% in April and up 2.0% versus a year ago.
- After adjusting for inflation, real consumption was up 0.2% in April and was revised up substantially for March, from -0.2% to unchanged. Real consumption is up 3.5% versus April 2006.



Implications: Today's report showed strong consumption, weak income, and lower core inflation. The consumption number is worth attention, the income figure is an aberration, and the core inflation number is increasingly irrelevant. Before today, we had forecast real consumption would grow at less than a 2% rate in Q2. The revision to March and strength in April suggest real consumption will grow around 2.5% in Q2. *As a result, we are raising our projection for Q2 real GDP growth from 3% to 3.5%.* The weak April income figure is an aberration due to a decline in pay by private service industries. The government assumed the large bonuses announced in late 2006 were received in the first quarter, resulting in a fall-off in compensation in April. On inflation, we believe too many analysts are paying too much attention to core inflation, which always excludes food and energy. Core inflation is useful when food and energy prices move up *and* down, not when they consistently move up. A better measure of inflation is the "trimmed mean" method published by the Dallas Fed, which still shows PCE inflation above the Fed's "comfort zone" of 1% to 2%.

Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Apr-07	Mar-07	Feb-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	-0.1%	0.8%	0.6%	5.5%	6.8%	5.9%
Disposal (After-Tax) Income	-0.1%	0.7%	0.6%	5.1%	6.1%	5.6%
Personal Consumption Expenditures (PCE)	0.5%	0.4%	0.7%	7.1%	7.1%	5.8%
Durables	-0.2%	0.5%	-0.1%	0.9%	4.7%	3.3%
Nondurable Goods	0.3%	1.4%	0.4%	9.0%	8.9%	4.6%
Services	0.8%	0.0%	1.0%	7.4%	6.8%	6.8%
PCE Prices	0.3%	0.4%	0.4%	4.6%	3.4%	2.2%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.3%	1.9%	1.8%	2.0%
Real PCE	0.2%	0.0%	0.3%	2.4%	3.7%	3.5%

Source: Bureau of Economic Analysis