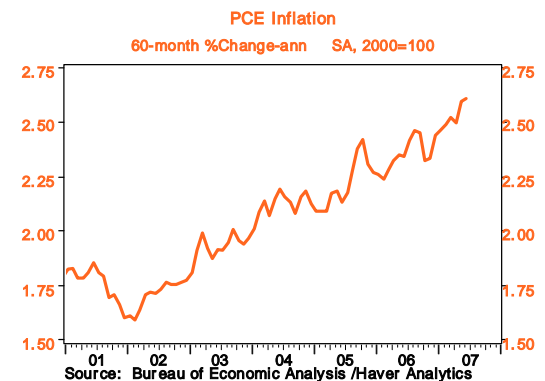
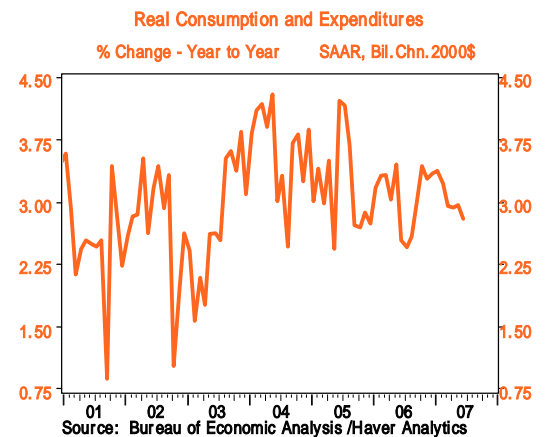


JUNE PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.4% in June versus a consensus expected gain of 0.5%. Personal consumption increased 0.1%, as expected.
- Disposable personal income (income after taxes) increased 0.4% in June and was up 5.5% versus a year ago.
- The PCE deflator (consumer price inflation) rose 0.1% in June and is up 2.3% from a year-ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% and 1.9% from last year.
- After adjusting for inflation, real consumption was unchanged in June but revised up for April and May. Real consumption is up 2.8% versus June 2006.

Implications: Not much news in today’s personal income and spending report. Although personal consumption was only up 0.1% in June this was no surprise, as it was available to anyone with a calculator and the GDP report from last Friday. By backing out the April and May consumption data (which was already on the books) from the Q2 GDP report it was easy to calculate June’s consumption growth in advance of the official release. Although real (inflation-adjusted) consumption was unchanged in June, we expect real consumer spending to accelerate from its weak 1.3% annual growth rate in Q2, to a more robust 2-2.5% annual rate in Q3. The growth rate of real disposable income over the past year outpaced the growth rate of real consumption (3.2% versus 2.8%). This, along with nice growth in after-tax, after fixed-expense, personal incomes, suggests that consumers are still in good shape. Our primary concern remains inflation. Despite benign core inflation, overall PCE prices are up at a 3.9% annual rate in the past six months and the chart to the right shows that the five-year trend in overall PCE inflation remains up. Core inflation is useful when food and energy prices move up *and* down, not when they consistently move up. The Federal Reserve still has work to do in taming inflation.



Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Jun-07	May-07	Apr-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.4%	0.4%	-0.2%	2.8%	6.8%	6.1%
Disposal (After-Tax) Income	0.4%	0.4%	-0.3%	2.2%	6.2%	5.5%
Personal Consumption Expenditures (PCE)	0.1%	0.6%	0.6%	5.4%	5.7%	5.2%
Durables	-1.6%	1.6%	-0.4%	-1.8%	0.8%	2.6%
Nondurable Goods	0.0%	1.4%	0.3%	7.0%	7.1%	4.9%
Services	0.5%	0.1%	0.9%	6.0%	6.0%	5.8%
PCE Prices	0.1%	0.5%	0.3%	3.8%	3.9%	2.3%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.6%	2.0%	1.9%
Real PCE	0.0%	0.2%	0.3%	1.6%	1.7%	2.8%

Source: Bureau of Economic Analysis