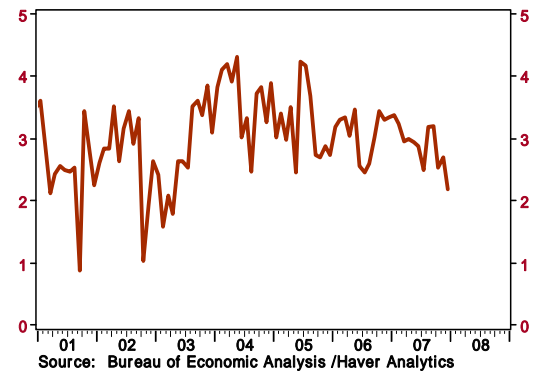


## DECEMBER PERSONAL INCOME AND CONSUMPTION

Chief Economist – Brian S. Wesbury  
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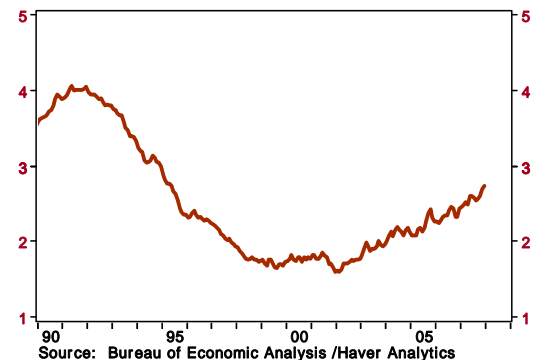
- Personal income increased 0.5% in December, slightly more than the consensus expected gain of 0.4%. Personal consumption increased 0.2% in December, also slightly more than the consensus expected.
- Disposable personal income (income after taxes) increased 0.5% in December and is up 5.6% versus a year ago.
- The overall PCE deflator (consumer price inflation) rose 0.2% in December and is up 3.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in December and is up 2.2% versus a year ago.
- After adjusting for inflation, real consumption was unchanged in December and was revised down for both October and November.

Real Consumption and Expenditures  
% Change - Year to Year SAAR, Bil.Chn.2000\$



**Implications:** Given yesterday’s GDP report we knew today’s figures on inflation-adjusted (real) consumption would be soft. Real consumer spending was unchanged in December and revised down a bit for both October and November. Real consumption is up a tepid 2.2% versus last December and is up at only a 1.3% annual rate in the past three months. However, this is not due to slower overall purchases: nominal spending is up 5.7% versus last December and up at a 6% rate in the past three months. What we have here is inflation eroding the real value of consumer spending. PCE prices increased 3.5% in 2007, the largest increase for any calendar year since 1990. PCE prices are up at a 4.6% rate in the past three months. As the chart to the right clearly shows, a long-term downward trend in inflation ended early this decade. The new trend continues to move upward. In other news this morning, new claims for unemployment benefits soared to 375,000 last week from 306,000 the week before and 300,000 two weeks ago. Recent gyrations in the claims data are likely due to problems with seasonal adjustments, with the truth about the labor market somewhere in between. The 4-week moving average of claims is 325,750. This level signals continued growth in payrolls.

PCE Inflation  
60-month %Change-ann SA, 2000=100



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-07	Nov-07	Oct-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
<b>Personal Income</b>	<b>0.5%</b>	0.4%	0.2%	4.4%	5.3%	5.8%
<b>Disposal (After-Tax) Income</b>	<b>0.5%</b>	0.4%	0.2%	4.1%	5.4%	5.6%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.2%</b>	1.0%	0.3%	6.0%	5.6%	5.7%
<b>Durables</b>	<b>-0.5%</b>	-0.3%	-0.3%	-4.6%	2.7%	1.7%
<b>Nondurable Goods</b>	<b>0.1%</b>	1.8%	0.5%	10.0%	6.3%	6.7%
<b>Services</b>	<b>0.5%</b>	0.8%	0.3%	6.0%	5.9%	6.0%
<b>PCE Prices</b>	<b>0.2%</b>	0.6%	0.3%	4.6%	3.1%	3.5%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.2%	0.2%	2.7%	2.5%	2.2%
<b>Real PCE</b>	<b>0.0%</b>	0.4%	-0.1%	1.3%	2.5%	2.2%

Source: Bureau of Economic Analysis