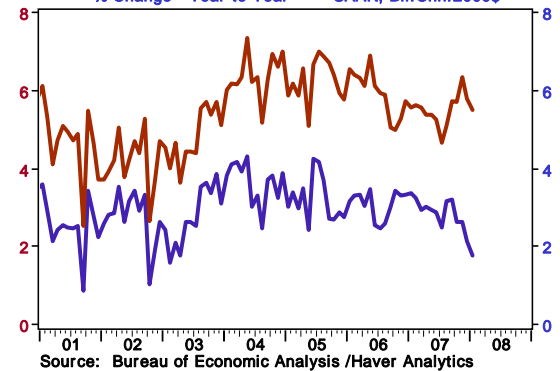


JANUARY PERSONAL INCOME AND CONSUMPTION

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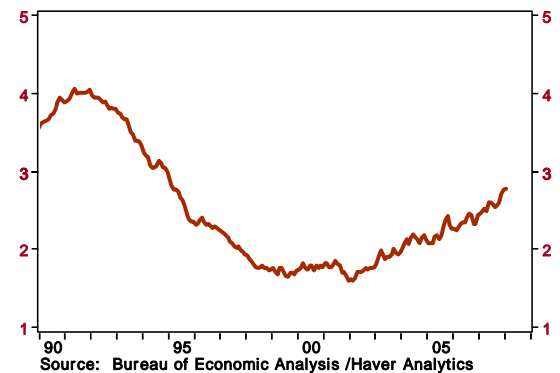
- Personal income increased 0.3% in January while personal consumption grew 0.4%, both higher than the consensus expected.
- Disposable personal income (income after taxes) increased 0.4% in January and is up 5.0% versus a year ago.
- The overall PCE deflator (consumer price inflation) rose 0.4% in January and is up 3.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.3% in January and is up 2.2% versus a year ago.
- After adjusting for inflation, real consumption was unchanged in January for the second consecutive month.

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



Implications: Higher inflation is the most important part of today’s report on income and spending and the key to understanding recent data on consumption. PCE prices are up 3.7% versus a year ago, the largest 12-month increase since 1991 (excluding the aftermath of Hurricanes Katrina/Rita). In the past three months PCE prices are up at a 5.4% annual rate. Note that *nominal* consumption (total consumer spending) is up a healthy 5.5% versus last year and up at a robust 6.6% annual rate in the past three months. It is only once the spending figures are adjusted for inflation that we show real consumption up only 1.8% versus a year ago and up at only a 1.1% rate in the past three months. So what we have here is not a slowdown in consumer spending but an erosion of purchasing power due to higher inflation. While we believe inflation will continue on its upward trend (see chart to right) it is highly unlikely to climb as rapidly in the next few months as it has in the past few months. As a result, real consumption will rebound in the months ahead, undermining the theory that we are in a recession.

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



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-08	Dec-07	Nov-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.3%	0.5%	0.3%	4.1%	4.3%	4.9%
Disposal (After-Tax) Income	0.4%	0.4%	0.2%	4.7%	4.5%	5.0%
Personal Consumption Expenditures (PCE)	0.4%	0.3%	0.9%	6.6%	5.8%	5.5%
Durables	-1.2%	-0.8%	-0.9%	-11.2%	-0.5%	-1.4%
Nondurable Goods	0.5%	0.3%	1.8%	10.8%	6.3%	7.4%
Services	0.6%	0.5%	0.8%	8.1%	6.7%	5.9%
PCE Prices	0.4%	0.3%	0.6%	5.4%	3.8%	3.7%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.2%	0.2%	3.0%	2.8%	2.2%
Real PCE	0.0%	0.0%	0.2%	1.1%	1.9%	1.8%

Source: Bureau of Economic Analysis