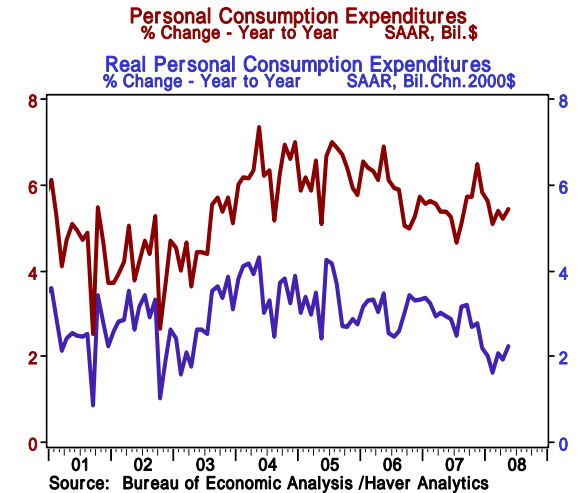


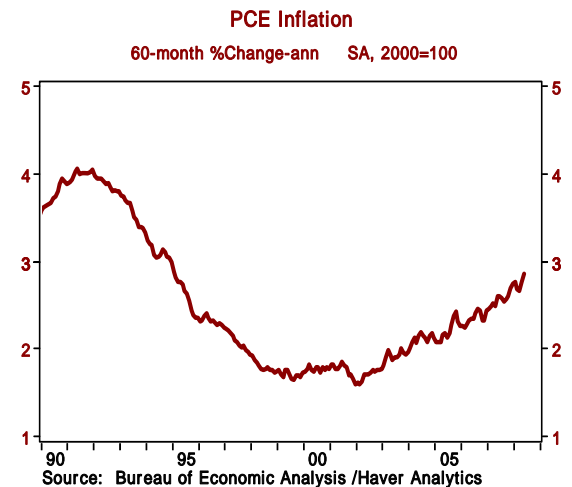
MAY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 1.9% in May, far outpacing the consensus expected gain of 0.4%. Personal consumption increased 0.8%, slightly beating the consensus expected gain of 0.7%. Personal income is up 6.4% versus last year; personal consumption is up 5.4% versus last year.
- Disposable personal income (income after taxes) increased 5.7% in May and is up 10.7% versus last year.
- The overall PCE deflator (consumer inflation) rose 0.4% in May and is up 3.1% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in May and is up 2.1% versus a year ago.
- After adjusting for inflation, real consumption was up 0.4% in May, was revised up for March and April, and is up 2.2% versus a year ago.



Implications: The US is nowhere near a consumer-led recession. Real (inflation-adjusted) consumption increased 0.4% in May and was revised up for both March and April. These data add significant upside risk to our forecast of 2% real GDP growth in Q2. However, given the impact of federal tax rebates, today’s numbers on personal income have to be taken with a huge grain of salt. Although income was up 1.9% in May, wages and salaries were up a moderate 0.3%. Almost all the increase in personal income was due to the “outlay” portion of the tax rebates (the amounts of the rebates that exceed each taxpayer’s income tax liability). As a result of the income gains, the personal saving rate leapt to 5% in May, the highest since 1995. Meanwhile, inflation remains a problem. Overall PCE prices are already up 3.1% versus a year ago and the year-ago comparisons are going to get worse over the next few months. Although some analysts focus on the relatively benign 2.1% increase in “core” inflation versus last year, this figure masks the underlying inflation trend by always ignoring food and energy. The 5-year trend in overall PCE inflation (bottom chart on the right) has been rising since late 2001 and is now at 2.9%, the highest since 1995.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	May-08	Apr-08	Mar-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	1.9%	0.3%	0.3%	10.4%	7.6%	6.4%
Disposal (After-Tax) Income	5.7%	0.4%	0.3%	28.2%	16.3%	10.7%
Personal Consumption Expenditures (PCE)	0.8%	0.4%	0.5%	7.1%	5.1%	5.4%
Durables	-0.2%	-0.3%	-0.8%	-5.1%	-5.0%	-2.9%
Nondurable Goods	1.2%	0.7%	1.1%	12.5%	7.3%	6.6%
Services	0.7%	0.4%	0.5%	6.8%	5.9%	6.4%
PCE Prices	0.4%	0.2%	0.3%	3.9%	3.4%	3.1%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.2%	1.8%	2.0%	2.1%
Real PCE	0.4%	0.2%	0.2%	3.1%	1.6%	2.2%

Source: Bureau of Economic Analysis