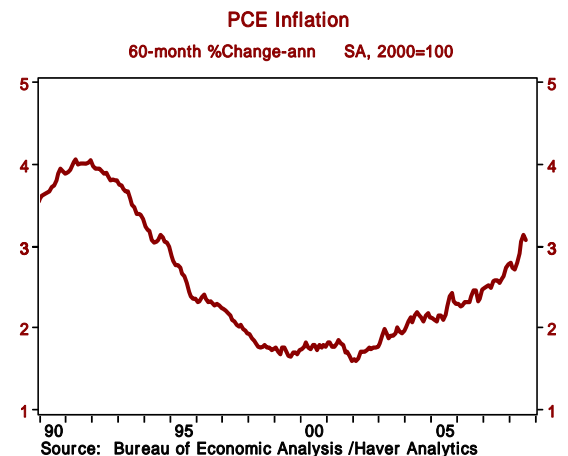
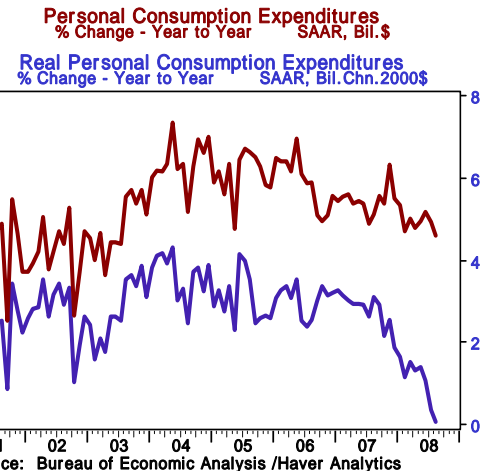


AUGUST PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in August, beating the consensus expected 0.2% gain. Personal consumption was unchanged versus a consensus expectation of a 0.2% rise. Personal income and personal consumption are both up 4.6% versus last year.
- Disposable personal income (income after taxes) declined 0.9% in August but is up 4.8% versus last year. The decline in August was due to the end of the recent round of federal tax rebates, which boosted disposable income earlier this year. Pre-tax wages and salaries were up 0.4% in August.
- The overall PCE deflator (consumer inflation) was unchanged in August, but is up 4.5% versus a year ago and up at a 5.9% annual rate in the past three months. The “core” PCE deflator, which excludes food and energy, increased 0.2% in August and is up 2.6% versus a year ago, the largest one-year gain since 1995.
- After adjusting for inflation, real consumption was unchanged in August. Including downward revisions to June/July, real consumption is up only 0.1% versus a year ago, the smallest gain since 1991.



Implications: Today’s consumption data were weak, with consumer spending unchanged on both a nominal and inflation-adjusted basis in August. As a result, real consumption probably declined at a 2% annual rate in the third quarter while real GDP – supported by an export boom – likely grew at around a 1.5% rate. As the top chart shows, inflation has been the key ingredient behind anemic consumption growth in the past year. Nominal spending is up a healthy 4.6% versus a year ago. But with PCE prices up 4.5% in the past year, near the most since 1991, real consumption is up only 0.1%, the smallest gain since 1991. Even “core” inflation (excluding food and energy) is accelerating, up 2.6% versus last year, the most since 1995. In other words, without Fed-induced inflation, real consumer spending would be growing substantially faster. Although some of the unexpectedly strong 0.5% increase in personal income was due to a spike in unemployment benefits (related to the extension of benefits), employee compensation was still up a respectable 0.4%. With income still growing and oil prices down from previous months, we expect a moderate rebound in real consumption in the months ahead.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-08	Jul-08	Jun-08	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.5%	-0.6%	0.1%	0.3%	5.3%	4.6%
Disposal (After-Tax) Income	-0.9%	-0.8%	-1.8%	-13.1%	5.8%	4.8%
Personal Consumption Expenditures (PCE)	0.0%	0.1%	0.5%	2.8%	4.7%	4.6%
Durables	1.4%	-3.1%	-1.5%	-12.4%	-8.1%	-5.5%
Nondurable Goods	-0.6%	0.5%	1.2%	4.7%	8.7%	8.1%
Services	0.1%	0.5%	0.5%	4.7%	5.1%	4.8%
PCE Prices	0.0%	0.6%	0.8%	5.9%	5.0%	4.5%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.3%	0.3%	3.3%	2.7%	2.6%
Real PCE	0.0%	-0.5%	-0.2%	-2.9%	-0.3%	0.1%

Source: Bureau of Economic Analysis