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October Personal Income and Consumption

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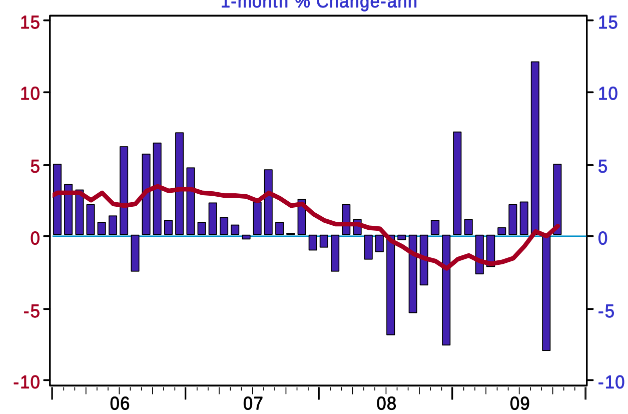
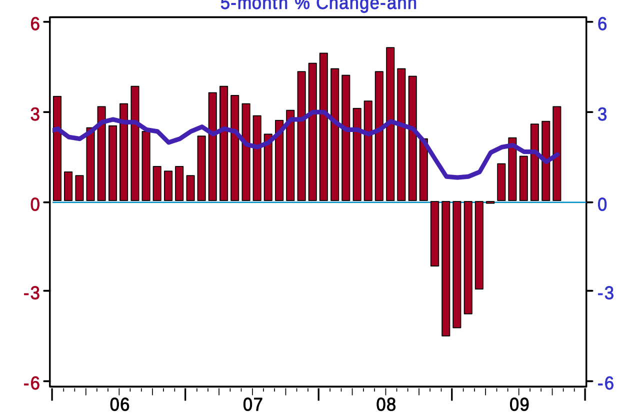
- Personal income was up 0.2% in October while personal consumption increased 0.7%, both beating consensus expectations.
- Disposable personal income (income after taxes) was up 0.4% in October, but up a stronger 0.7% including upward revisions to August/September. Disposable income is up 2.4% versus a year ago. Private sector wages and salaries increased for the fifth time in the past seven months, although they have not been keeping pace with inflation.
- The overall PCE deflator (consumer inflation) was up 0.3% in October and is up at a 2.7% annual rate in the past six months. The "core" PCE deflator, which excludes food and energy, was up 0.2% in October and is up at a 1.5% rate in the past six months.
- After adjusting for inflation, "real" consumption increased 0.4% in October, the fifth gain in the past six months.



Source: Bureau of Economic Analysis /Haver Analytics



Source: Bureau of Economic Analysis /Haver Analytics

Implications: Those who deny the economic recovery or question its sustainability need to take a close look at today's report on personal income and spending. Incomes are rising, consumer spending is going up, and the personal saving rate is noticeably higher than it was a year ago. In other words, households can repair their balance sheets at the same time they increase their spending. Household balance sheets are improving due to a combination of factors. First, the saving rate is 4.4%, versus 2.9% a year ago and 1.7% two years ago. Second, the stock market is up substantially. Third, consumer (non-mortgage) debt is down 5% versus the peak in mid-2008. Of course, the improvement in household balance sheets has been accompanied by a deterioration of the government's balance sheet, but this problem, if not corrected by spending limits, will have a gradual negative impact on the economy over a long period of time. It is not going to derail the recovery anytime soon. Note that the revival in spending can no longer be attributed to "cash for clunkers." "Real" (inflation-adjusted) consumer spending in October (which was supposed to be artificially low because of the end of the clunkers program in August) was up at a 2.6% annual rate versus June, which was before the clunkers program started. Focusing on "cash" spending (which means excluding the imputed rent the government says homeowners charge themselves), the growth rate would be even stronger. On the inflation front, overall consumer prices are up at a 2.7% annual rate in the past six months, a warning sign for the Federal Reserve that monetary policy is too loose.

Personal Income and Spending *All Data Seasonally Adjusted*	Oct-09	Sep-09	Aug-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**0.2%**	0.2%	0.3%	2.7%	2.9%	-1.0%
Disposal (After-Tax) Income	**0.4%**	0.2%	0.3%	3.5%	3.6%	2.4%
Personal Consumption Expenditures (PCE)	**0.7%**	-0.6%	1.3%	5.7%	5.0%	0.9%
Durables	**2.1%**	-8.5%	6.2%	-3.1%	6.1%	0.1%
Nondurable Goods	**0.4%**	0.7%	2.0%	13.5%	10.6%	-1.4%
Services	**0.5%**	0.3%	0.3%	4.6%	3.0%	1.8%
PCE Prices	**0.3%**	0.1%	0.3%	2.9%	2.7%	0.2%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.1%	0.1%	1.7%	1.5%	1.4%
Real PCE	**0.4%**	-0.7%	1.0%	2.6%	2.2%	0.8%

Source: Bureau of Economic Analysis