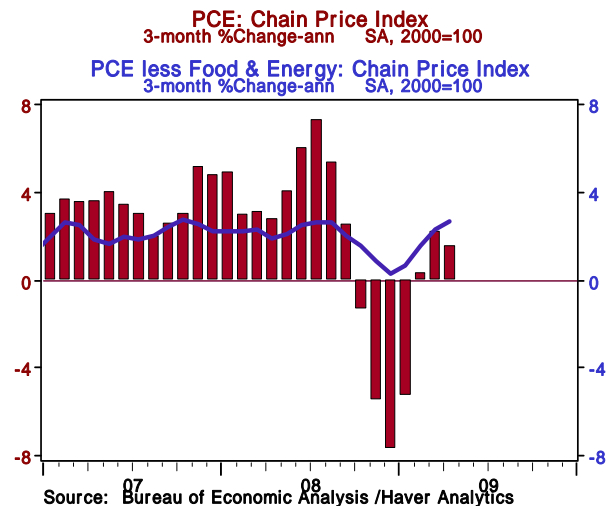
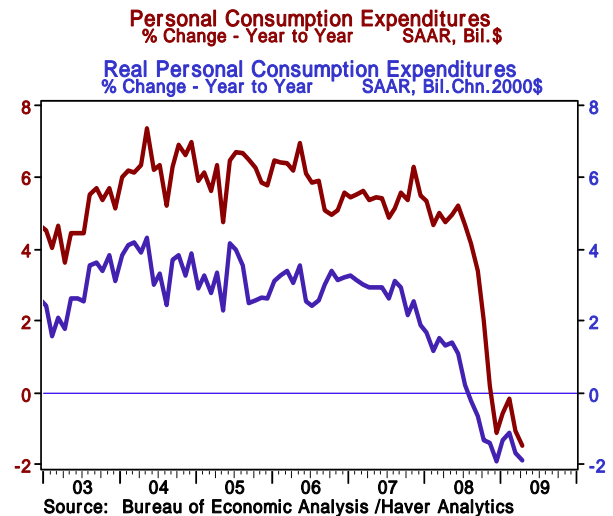


APRIL PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in April, much better than the consensus expected decline of 0.2%. Personal consumption decreased 0.1% versus a consensus expected -0.2%. Personal income is up 0.7% in the past year while personal consumption is down 1.5%.
- Disposable personal income (income after taxes) was up 1.1% in April and is up 4.1% versus last year. The largest contributions to disposable income growth in April were lower tax payments (down 5.1%) and higher government transfer payments (social security/medicare/medicaid/jobless benefits, up 2.3%). An increase in wages and salaries also made a small positive contribution to the growth in disposable income.
- The overall PCE deflator (consumer inflation) was up 0.1% in April and is up 0.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.3% in April and is up 1.9% versus a year ago.
- After adjusting for inflation, real consumption was down 0.1% in April, and revisions to March subtracted another 0.1%. Real consumption is down 1.9% versus last year.

Implications: Income grew much more than the consensus expected in April, largely due to government transfer payments. However, the most interesting and positive part of the income report was that wages and salaries increased for the first time in eight months. Although “real” (inflation-adjusted) consumer spending fell 0.1% in April, recent gains in after-tax income will help push spending higher in the months ahead. One year ago, the personal saving rate was 0%; now it is 5.7%, the highest since 1995 and slightly above the 30-year average of 5.4%. The saving rate is volatile from month to month but we project that the largest increases are behind us, not in front of us. As a result, consumer spending can grow in line with after-tax incomes. On the inflation front, overall consumption prices are up at a 1.5% annual rate in the past three months while “core” consumption prices are up at a 2.7% rate. These increases are a harbinger of higher inflation to come.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-09	Mar-09	Feb-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.5%	-0.2%	-0.2%	0.1%	-1.2%	0.7%
Disposal (After-Tax) Income	1.1%	0.1%	0.0%	4.7%	4.6%	4.1%
Personal Consumption Expenditures (PCE)	-0.1%	-0.3%	0.4%	0.0%	-1.7%	-1.5%
Durables	-0.6%	-0.8%	-0.1%	-6.1%	1.6%	-10.4%
Nondurable Goods	-0.6%	-1.1%	1.3%	-1.9%	-10.8%	-7.3%
Services	0.3%	0.1%	0.1%	1.9%	2.3%	3.0%
PCE Prices	0.1%	0.0%	0.3%	1.5%	-2.0%	0.4%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.2%	0.2%	2.7%	1.7%	1.9%
Real PCE	-0.1%	-0.3%	0.1%	-1.5%	0.2%	-1.9%

Source: Bureau of Economic Analysis