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# May Personal Income and Consumption

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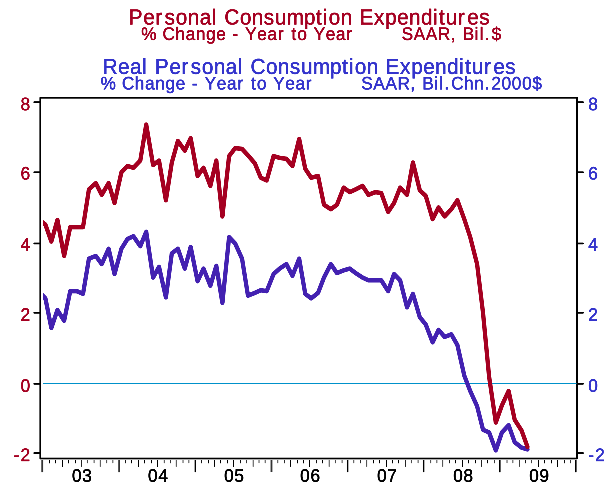
- Personal income increased 1.4% in May, much better than the consensus expected increase of 0.3%. Personal consumption increased 0.3%, exactly as the consensus expected. Personal income is up 0.3% in the past year while personal consumption is down 1.8%.

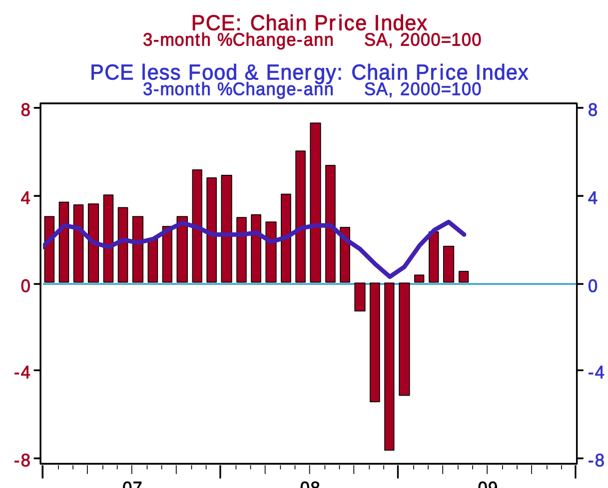
- Disposable personal income (income after taxes) was up 1.6% in May and is up 0.2% versus last year. The largest contribution to disposable income growth in May was, by far, a one-time "stimulus" payment of $250 to beneficiaries of some government programs (social security, supplemental security income, railroad retirement, and veterans).

- The overall PCE deflator (consumer inflation) was up 0.1% in May and is up 0.1% versus a year ago. The "core" PCE deflator, which excludes food and energy, was also up 0.1% in May and is up 1.8% versus a year ago.

- After adjusting for inflation, real consumption increased 0.2% in May (0.3% including upward revisions to March and April). Real consumption is down 1.9% versus last year.




Source: Bureau of Economic Analysis /Haver Analytics




Source: Bureau of Economic Analysis /Haver Analytics

**Implications**: Consumer spending increased in May, the fourth gain in the last five months. "Real" (inflation-adjusted) consumer spending also increased in May and was revised upward for both March and April. These figures support our view that the recession is over. Part of the reason for the rise in consumption was that disposable income surged again in May on top of a large gain in April. The rise in May was mostly due to "stimulus" payments from the federal government to those beneficiaries of certain programs who do not pay income taxes (including social security, SSI, veterans, and railroad retirees). Although wages and salaries declined in May, they are not falling as rapidly as late last year and reduced tax payments offset this pain in May. In the months ahead, we expect wages and salaries to start rising as firms stop reducing payrolls as forcefully and become less aggressive about reducing salaries. The personal saving rate is now 6.9%, the highest since 1993, compared to zero early last year. This rise will help support consumer spending in the year ahead. On the inflation front, "core" consumption prices are up at a 2.2% rate in the past three months, a signal that weak year-ago price comparisons are not showing the recent trend in underlying inflation.

| Personal Income and Spending<br>*All Data Seasonally Adjusted* | May-09 | Apr-09 | Mar-09 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % Change |
|---|---|---|---|---|---|---|
| ***Personal Income*** | **1.4%** | 0.7% | -0.3% | 7.2% | 2.5% | 0.3% |
| ***Disposal (After-Tax) Income*** | **1.6%** | 1.3% | 0.0% | 12.4% | 8.7% | 0.2% |
| ***Personal Consumption Expenditures (PCE)*** | **0.3%** | 0.0% | -0.3% | 0.0% | 0.4% | -1.8% |
| ***Durables*** | **0.8%** | -1.3% | -0.8% | -5.3% | 0.5% | -10.5% |
| ***Nondurable Goods*** | **0.5%** | -0.3% | -1.0% | -2.9% | -3.1% | -7.5% |
| ***Services*** | **0.0%** | 0.4% | 0.2% | 2.3% | 2.1% | 2.6% |
| ***PCE Prices*** | **0.1%** | 0.1% | 0.0% | 0.5% | 0.4% | 0.1% |
| ***"Core" PCE Prices (Ex Food and Energy)*** | **0.1%** | 0.3% | 0.2% | 2.2% | 2.0% | 1.8% |
| ***Real PCE*** | **0.2%** | -0.1% | -0.2% | -0.4% | 0.0% | -1.9% |

*Source: Bureau of Economic Analysis*