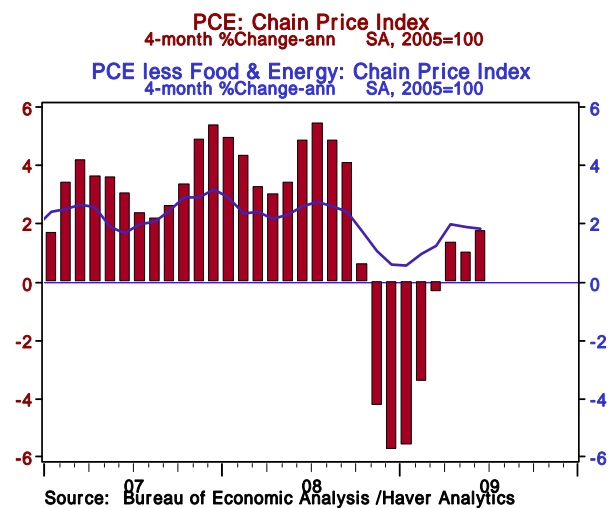
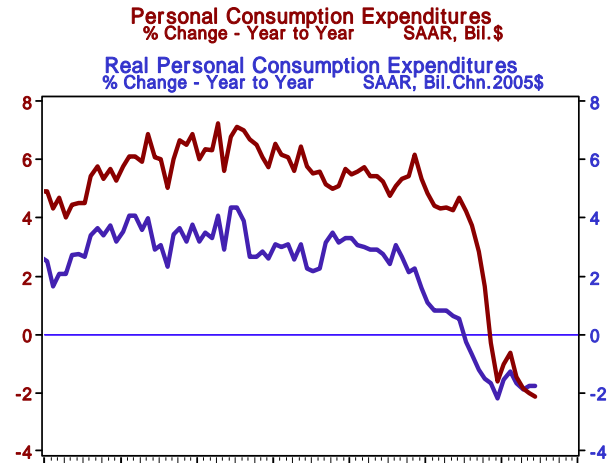


JUNE PERSONAL INCOME AND CONSUMPTION

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- Personal income fell 1.3% in June versus a consensus expected drop of 1.0%. Personal consumption increased 0.4%, slightly better than the consensus expected gain of 0.3%. Personal income is down 3.4% in the past year while personal consumption is down 2.2%.
- Disposable personal income (income after taxes) was down 1.3% in June and is also down 1.3% versus last year. The primary reason for the drop in disposable income in June was the unwinding of the one-time May “stimulus” payments of \$250 to beneficiaries of some government programs (social security, supplemental security income, and railroad retirement).
- The overall PCE deflator (consumer inflation) was up 0.5% in June, the most in a year, but is down 0.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in June and is up 1.5% versus a year ago.
- After adjusting for inflation, real consumption declined 0.1% in June and is down 1.8% versus last year.

Implications: Consumer spending was up in June and is up at a 2.5% annual rate so far in 2009, a marked contrast to the 6.6% rate of decline in the second half of 2008. However, for the time being, a revival in inflation is offsetting the gain in cash spending. Consumption prices increased 0.5% in June, the largest increase in a year, resulting in a small decline in “real” consumer spending. Temporarily, we see the upswing in inflation as good news, in the sense that monetary velocity is returning and the recession is over. Moreover, yesterday’s data on auto sales show that real consumer spending will be substantially higher in July. Car and truck sales increased to an 11.2 million annual rate in July versus a 9.7 million annual rate in June. Much of the gain was due to the “cash for clunkers” program, which took some auto sales that would have happened in May/June and pushed them into July, while also “borrowing” some sales from the future. However, with cars and light trucks (pick-ups and SUVs) being scrapped at a 13+ million annual rate, we expect auto sales to grow strongly over the next couple of years, with or without government incentive programs.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-09	May-09	Apr-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	-1.3%	1.3%	0.2%	0.8%	-4.2%	-3.4%
Disposal (After-Tax) Income	-1.3%	1.6%	0.9%	4.6%	1.7%	-1.3%
Personal Consumption Expenditures (PCE)	0.4%	0.1%	-0.1%	1.6%	2.5%	-2.2%
Durables	-0.2%	1.1%	-1.3%	-1.8%	0.9%	-9.6%
Nondurable Goods	1.7%	0.1%	-0.5%	5.0%	9.1%	-7.4%
Services	0.1%	0.0%	0.2%	1.1%	0.7%	0.9%
PCE Prices	0.5%	0.1%	0.1%	2.7%	2.1%	-0.4%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.3%	2.0%	1.8%	1.5%
Real PCE	-0.1%	0.0%	-0.2%	-1.1%	0.4%	-1.8%

Source: Bureau of Economic Analysis