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December Personal Income and Consumption

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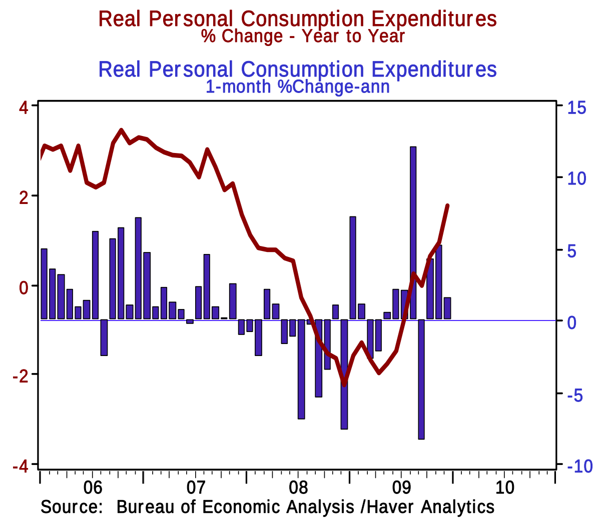
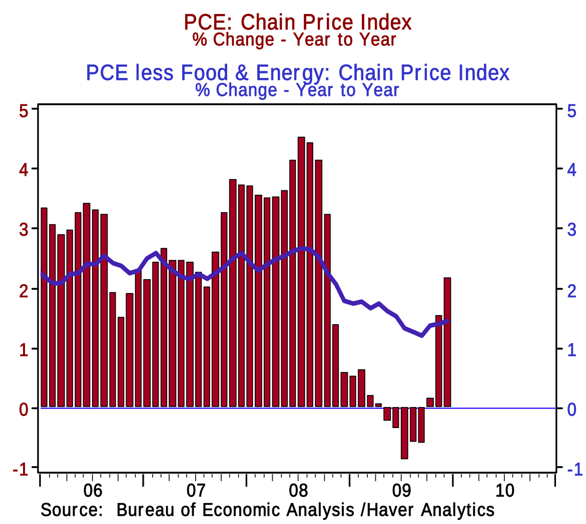
- Personal income was up 0.4% in December, slightly higher than the consensus expected. Personal consumption increased 0.2% (0.4% including upward revisions to prior months), versus a consensus expected 0.3%.
- Disposable personal income (income after taxes) was up 0.4% in December and is up at a 5.5% annual rate in the past three months. Private sector wages and salaries increased for the eighth time in the past nine months.
- The overall PCE deflator (consumer inflation) was up 0.1% in December and is up at a 2.6% annual rate in the past three months. The "core" PCE deflator, which excludes food and energy, was also up 0.1% in December and is up at a 1.2% rate in the past three months.
- After adjusting for inflation, "real" consumption increased 0.1% in December (0.3% including upward revisions to prior months). Real consumption is up at a 3.6% annual rate in the past three months.





Implications: Consumers are getting more confident about opening their wallets and purses, and they don't need government aid to do it. Cash-for-clunkers ended in August and was supposed to reduce spending late in 2009. But in the past three months, "real" (inflation-adjusted) consumer spending is up at a robust 3.6% annual rate. One key reason is the turnaround in earnings since the low in March. In the past nine months, even though payrolls continued to decline, compensation *per worker* (wages, salaries, and fringe benefits like health insurance) increased at a healthy 4.7% annual rate (2.2% inflation-adjusted). And with the jobless rate at or near a peak, income gains are likely to accelerate. Meanwhile, households are repairing their balance sheets, with more aggressive saving and falling debt levels. The personal saving rate is 4.8% (and has averaged 4.6% over the past twelve months) versus a low of less than 1% in early 2008. The financial obligations of households (debt service plus rents and car leases) are now the smallest share of after-tax income since mid-2000. 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 V-shaped recovery in the next couple of years. On the inflation front, overall consumer prices are up 2.1% versus a year ago, but up at a 2.6% annual rate in the past three months. Expect further acceleration of inflation in the months ahead.

Personal Income and Spending *All Data Seasonally Adjusted*	Dec-09	Nov-09	Oct-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**0.4%**	0.5%	0.3%	4.6%	3.7%	0.5%
Disposal (After-Tax) Income	**0.4%**	0.5%	0.4%	5.5%	4.1%	3.7%
Personal Consumption Expenditures (PCE)	**0.2%**	0.7%	0.6%	6.3%	4.8%	4.0%
Durables	**0.0%**	2.2%	2.1%	19.0%	6.9%	5.2%
Nondurable Goods	**-0.6%**	1.8%	0.4%	6.6%	8.3%	9.2%
Services	**0.5%**	0.1%	0.5%	4.4%	3.3%	2.2%
PCE Prices	**0.1%**	0.3%	0.3%	2.6%	2.2%	2.1%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.0%	0.2%	1.2%	1.1%	1.5%
Real PCE	**0.1%**	0.4%	0.3%	3.6%	2.6%	1.8%

Source: Bureau of Economic Analysis