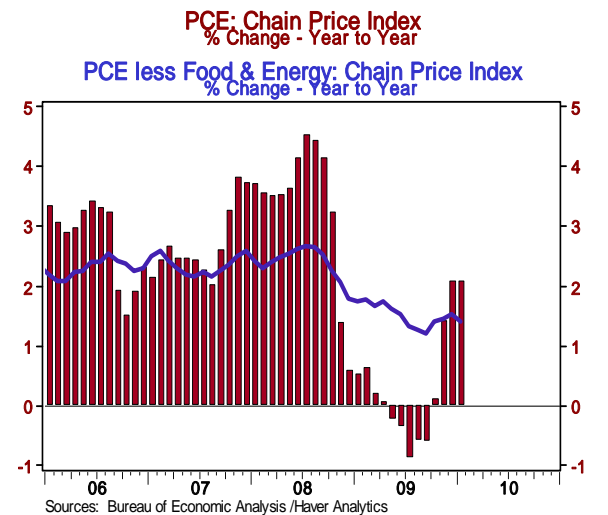
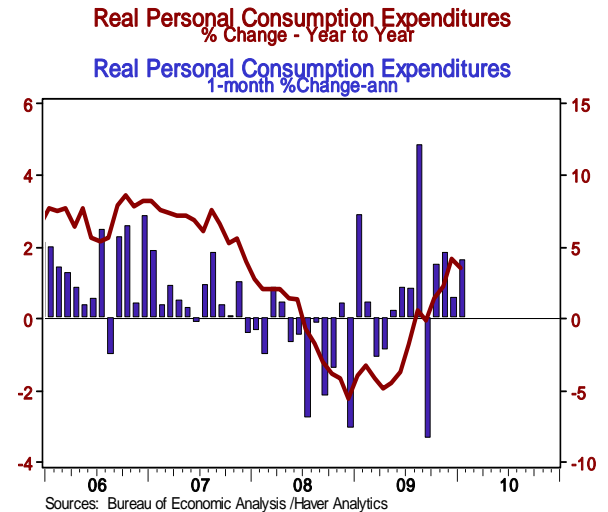


JANUARY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.1% in January while personal consumption rose 0.5%. The consensus had expected a 0.4% increase for each.
- Disposable personal income (income after taxes) declined 0.4% in January, but is up 2.1% in the past year. In January, an increase in worker compensation – including wages and salaries in the private sector – was offset by higher tax payments and falling dividends.
- The overall PCE deflator (consumer inflation) was up 0.2% in January and is up at a 2.3% annual rate in the past six months. The “core” PCE deflator, which excludes food and energy, was unchanged in January and is up at a 1.1% rate in the past six months.
- After adjusting for inflation, “real” consumption increased 0.3% in January and is up at a 2.7% annual rate in the past six months and at a 3.3% rate in the past three months.

Implications: Consumers might not be *saying* they are more confident about the economy, but they are certainly *acting* that way. While inflation-adjusted consumer spending is up at only 1.4% in the past year, it’s up at a 2.7% annual rate in the past six months and up at a 3.3% rate in the past three months. And remember, the recent acceleration in spending is happening in the aftermath of cash-for-clunkers, which was supposed to reduce spending in late 2009 and early 2010. Some analysts have belittled the recent surge in economic growth as a byproduct of an inventory cycle. What they miss is that the growth surge is generating higher incomes and profits that will reinforce economic improvement. For example, private sector wages and salaries have now increased four straight months and are starting to outpace inflation. Although disposable personal income fell 0.4% in January, this was largely due to a one-time increase in tax payments and a decline in dividends. Private-sector wages and salaries increased 0.3%. Meanwhile, the financial obligations of households (debt service plus rents and car leases) are now the smallest share of after-tax income in about a decade. On the inflation front, overall consumer prices are up 2.1% versus a year ago. Given extremely loose money from the Federal Reserve, we expect that pace to move upward this year.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jan-10	Dec-09	Nov-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.1%	0.3%	0.4%	3.5%	3.3%	1.1%
Disposable (After-Tax) Income	-0.4%	0.4%	0.5%	1.6%	2.6%	2.1%
Personal Consumption Expenditures (PCE)	0.5%	0.3%	0.5%	5.4%	5.1%	3.5%
Durables	0.1%	0.4%	2.3%	11.4%	4.7%	3.1%
Nondurable Goods	1.8%	-0.4%	1.2%	10.5%	11.4%	8.2%
Services	0.2%	0.5%	0.1%	2.9%	3.2%	2.1%
PCE Prices	0.2%	0.1%	0.2%	2.0%	2.3%	2.1%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.1%	0.1%	0.6%	1.1%	1.4%
Real PCE	0.3%	0.1%	0.4%	3.3%	2.7%	1.4%

Source: Bureau of Economic Analysis