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February Personal Income and Consumption

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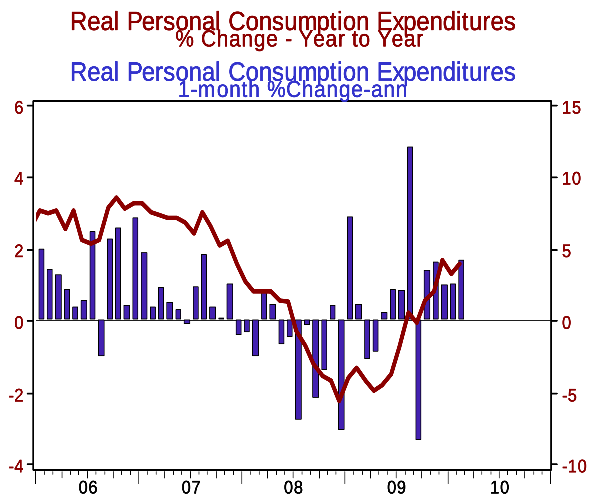
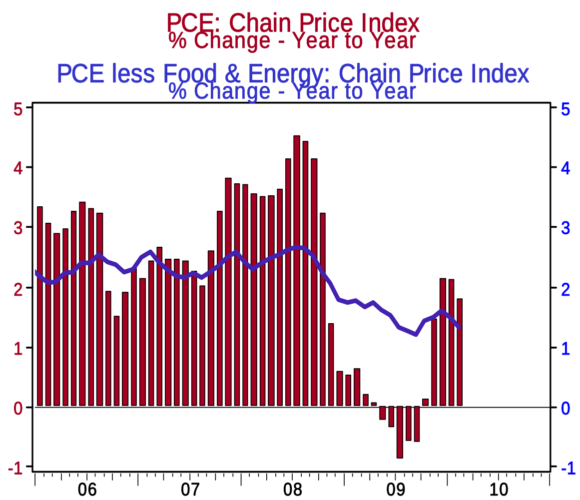
- Personal income was unchanged in February but up 0.3% including positive revisions to December/January. The consensus had expected an increase of 0.1%. Personal consumption rose 0.3% in February, both with and without revisions, as the consensus expected.
- Disposable personal income (income after taxes) was unchanged in February but up 0.3% with revisions to December/January. Disposable income is up 2.8% in the past year.
- The overall PCE deflator (consumer inflation) was unchanged in February but up at 1.8% annual rate in the past six months. The "core" PCE deflator, which excludes food and energy, was also unchanged in February and is up at a 1.1% rate in the past six months.
- After adjusting for inflation, "real" consumption increased 0.3% in February and is up at a 3.1% annual rate in the past three months.



Sources: Bureau of Economic Analysis /Haver Analytics

Implications: The American consumer is back. Inflation-adjusted consumer spending is up at a 3.3% annual rate since September, which was the first month after cash-for-clunkers. And this is despite recent problems at Toyota that artificially suppressed auto sales in February. Now, with auto sales recovering from this trial-lawyer/media/government attack, expect even higher spending numbers to be reported next month and beyond. Some analysts are befuddled by the gains in spending given what they believe are continued high debt levels. However, they are missing the fact that workers can both increase their spending and continue to pay down debt. Here's a simple example. If you made $50,000 after taxes last year and paid down $10,000 in debt, you could spend $40,000. If you make the same $50,000 this year and only pay down $5,000 in debt, you can spend $45,000! In other words, as long as Americans do not pay down debt as forcefully as they were during the financial panic, there is room for us to both heal our balance sheets and raise our spending. And now that incomes are trending upward and payrolls are about to see significant gains, there is even more room for spending to go up. It's time for those who have denied the V-shaped recovery to throw in the towel. It's a "V" and it has matured into a self-sustaining expansion.



Sources: Bureau of Economic Analysis /Haver Analytics

Personal Income and Spending *All Data Seasonally Adjusted*	Feb-10	Jan-10	Dec-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**0.0%**	0.3%	0.4%	2.8%	2.8%	2.0%
Disposal (After-Tax) Income	**0.0%**	-0.2%	0.5%	1.0%	2.1%	2.8%
Personal Consumption Expenditures (PCE)	**0.3%**	0.4%	0.4%	4.4%	3.1%	3.4%
Durables	**-0.4%**	-1.4%	0.4%	-5.3%	-10.3%	1.4%
Nondurable Goods	**0.7%**	1.7%	-0.4%	7.8%	8.2%	6.9%
Services	**0.3%**	0.2%	0.6%	4.8%	3.6%	2.6%
PCE Prices	**0.0%**	0.2%	0.2%	1.3%	1.8%	1.8%
"Core" PCE Prices (Ex Food and Energy)	**0.0%**	0.0%	0.1%	0.5%	1.1%	1.3%
Real PCE	**0.3%**	0.2%	0.2%	3.1%	1.3%	1.6%

Source: Bureau of Economic Analysis