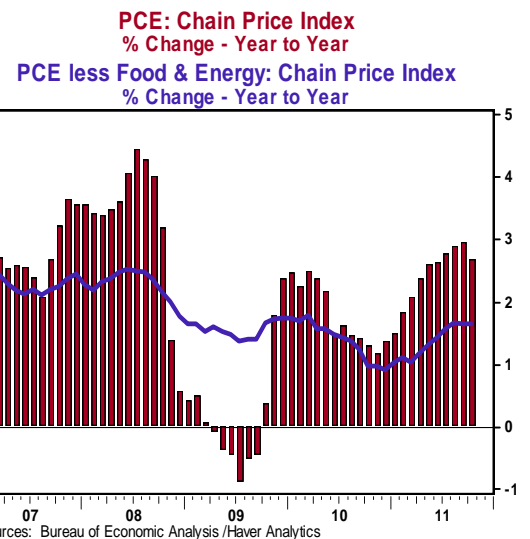
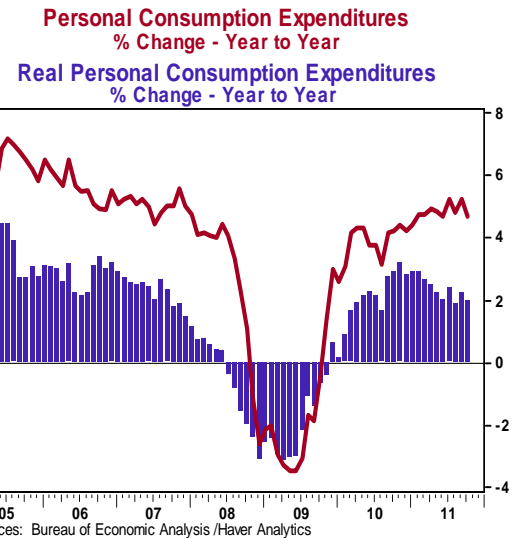


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October Personal Income and Consumption

- Personal income increased 0.4% in October while personal consumption increased 0.1%. The consensus expected each to gain 0.3%. (Including revisions for prior months, both income and consumption were unchanged in October.) In the past year, personal income is up 3.9% while spending is up 4.7%.
- Disposable personal income (income after taxes) was up 0.3% in October, but down 0.1% including revisions to prior months. Disposable income is up 2.5% from a year ago. Private sector wages and salaries, up 0.5%, accounted for most of the income gains in October.
- The overall PCE deflator (consumer inflation) declined 0.1% in October on lower energy prices. Prices are up 2.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in October and is up 1.7% since last year.
- After adjusting for inflation, “real” consumption was up 0.1% in October and is up 2.0% from a year ago.

Implications: Incomes grew more than the consensus expected in October while spending grew less. The pace of “real” (inflation-adjusted) consumer spending has been extraordinarily stable lately, up 2% from a year ago, up at a 2% annual rate in the past six months, and up at a 2.2% rate in the past three months. So far, nothing in the income data indicate a need for consumers to pullback on their spending. In fact, early indications suggest another gain for auto and light truck sales in November. Private-sector wages and salaries are up 4% from a year ago, which is faster than inflation. “Real” (inflation-adjusted) personal income *excluding government transfer payments* is up 1.9% from a year ago, very close to the growth rate of spending. In addition, consumer spending is being supported by the large reduction in households’ financial obligations the past few years. Recurring payments like mortgages, rent, car loans/leases, as well as other debt service, are now the smallest share of after-tax income since 1993. On the inflation front, overall consumption prices are up 2.7% in the past year. However, the Federal Reserve is focused on “core” inflation, which excludes food and energy. These prices are up 1.7% from a year ago. Given loose monetary policy, we expect inflation to get worse in the year ahead, both overall and for the core. In other news this morning, new claims for unemployment insurance increased 2,000 last week to 393,000. The four-week moving average dipped to 394,000 versus 440,000 in April/May. Continuing claims for regular state benefits increased 68,000 to 3.69 million. These figures are consistent with continued moderate payroll growth in November.



Personal Income and Spending	Oct-11	Sep-11	Aug-11	3-mo % ch.	6-mo % ch.	Yr to Yr
<i>All Data Seasonally Adjusted</i>				annualized	annualized	% change
Personal Income	0.4%	0.1%	-0.1%	1.6%	1.4%	3.9%
Disposable (After-Tax) Income	0.3%	0.1%	-0.1%	0.9%	0.8%	2.5%
Personal Consumption Expenditures (PCE)	0.1%	0.7%	0.2%	3.8%	3.6%	4.7%
Durables	0.8%	2.9%	-1.0%	11.1%	4.8%	5.5%
Nondurable Goods	-0.2%	1.0%	0.3%	4.5%	2.2%	7.4%
Services	0.1%	0.2%	0.3%	2.4%	4.0%	3.6%
PCE Prices	-0.1%	0.2%	0.3%	1.6%	1.6%	2.7%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.2%	1.0%	1.7%	1.7%
Real PCE	0.1%	0.5%	-0.1%	2.2%	2.0%	2.0%

Source: Bureau of Economic Analysis