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Data Watch

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January Personal Income and Consumption

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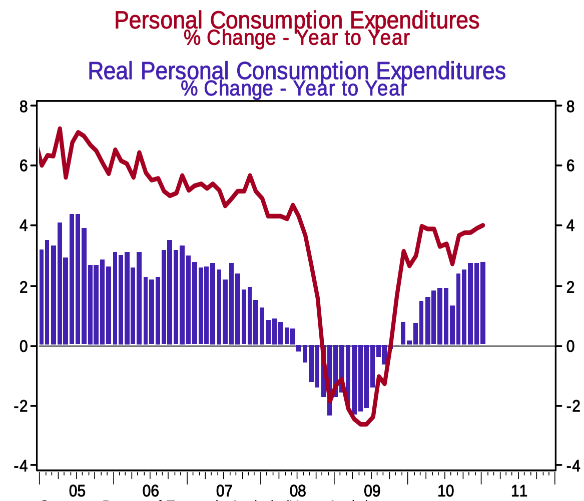
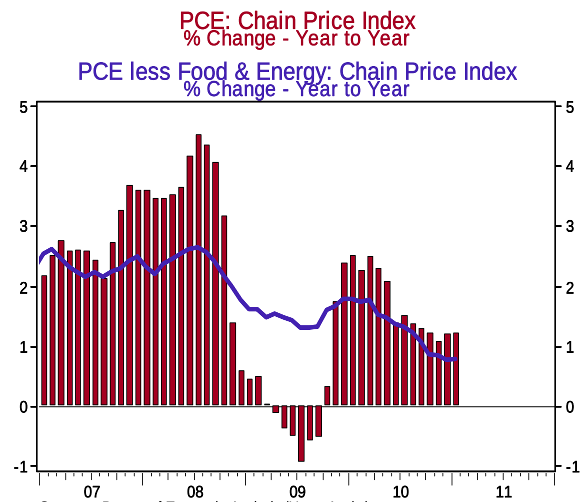
- Personal income spiked 1.0% in January, while personal consumption increased 0.2%. The consensus had expected a 0.4% increase for each. In the past six months, personal income is up at a 5.5% annual rate while spending is up at a 5.3% rate.
- Disposable personal income (income after taxes) was up 0.7% in January and is up at a 4.3% annual rate in the past six months. The rise in January was led by the reduction in payroll taxes, rising worker compensation, and dividends. Gov't transfer payments fell in January.
- The overall PCE deflator (consumer inflation) increased 0.3% in January and is up 1.2% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in January and is up 0.8% since last year.
- After adjusting for inflation, "real" consumption declined 0.1% in January, but is up 2.8% in the past year, in-line with real GDP growth.



Sources: Bureau of Economic Analysis /Haver Analytics

Implications: Personal income soared 1% in January, but mainly for an unusual reason: the government counts this year's drop in the payroll tax as an increase in income. However, the underlying upward trend in income continues, even apart from this accounting quirk. "Real" (inflation-adjusted) private-sector wages and salaries plus small business profits are up 3.6% in the past year. Meanwhile, consumer balance sheets are much healthier. Financial obligations – monthly payments like mortgages, rent, car loans/leases, as well as other debt service – are the smallest share of disposable income since 1995. So we expect the slight decline in real spending in January – the first dip in eight months – to be an outlier. On the inflation front, consumption prices are up only 1.2% versus a year ago but are accelerating, with prices up at a 2.2% annual rate in the past six months and a 2.6% rate in the past three months. In other news this morning, manufacturing is incredibly strong and home sales weakened slightly. The Chicago PMI, a measure of manufacturing in that region, increased to 71.2 in February, the highest level since 1988, from 68.8 in January. The consensus had expected a decline. Meanwhile, pending home sales, which are contracts on existing homes, declined 2.8% in January. This is the second straight dip, suggesting existing home sales, which are counted at closing, will fall slightly in February.



Sources: Bureau of Economic Analysis /Haver Analytics

Personal Income and Spending *All Data Seasonally Adjusted*	Jan-11	Dec-10	Nov-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**1.0%**	0.4%	0.3%	7.2%	5.5%	4.6%
Disposal (After-Tax) Income	**0.7%**	0.4%	0.3%	5.5%	4.3%	3.9%
Personal Consumption Expenditures (PCE)	**0.2%**	0.5%	0.3%	4.4%	5.3%	4.0%
Durables	**0.4%**	0.9%	-0.6%	2.3%	11.7%	9.8%
Nondurable Goods	**0.9%**	1.1%	0.6%	11.0%	12.2%	5.8%
Services	**0.0%**	0.3%	0.4%	2.6%	2.1%	2.6%
PCE Prices	**0.3%**	0.3%	0.1%	2.6%	2.2%	1.2%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.0%	0.1%	1.0%	0.7%	0.8%
Real PCE	**-0.1%**	0.3%	0.2%	1.8%	3.1%	2.8%

Source: Bureau of Economic Analysis

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