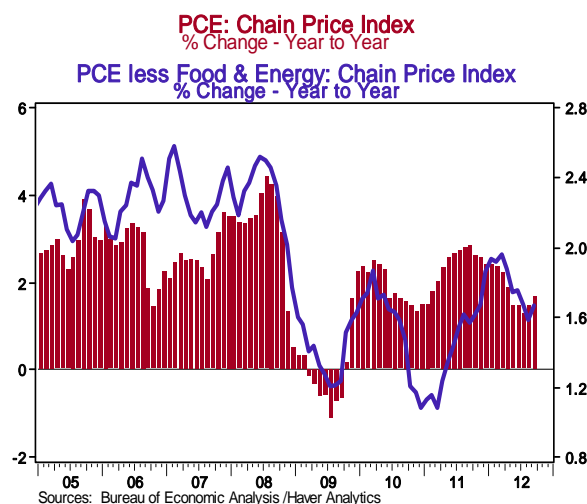
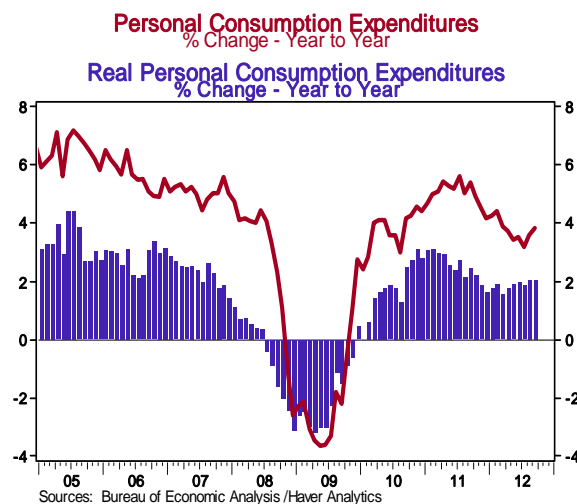


September Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- Personal income increased 0.4% in September, matching consensus expectations. Personal consumption rose 0.8%, coming in higher than the consensus expected 0.6%. In the past year, personal income is up 3.9%, while spending is up 3.8%.
- Disposable personal income (income after taxes) was up 0.4% in September and is up 3.6% from a year ago. The gain in income in September was led by private wages and salaries, small business income, and government transfer payments.
- The overall PCE deflator (consumer inflation) was up 0.4% in September and up 1.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in September and is up 1.7% in the past year.
- After adjusting for inflation, “real” consumption was up 0.4% in September and is up 2.1% from a year ago.

Implications: A good report on the consumer today shows the plow horse economy continues to push through the mud and clay. Consumer spending grew a healthy 0.8% in September, the biggest monthly gain since February. “Real” (inflation-adjusted) personal consumption was up 0.4% and is 2.1% higher than a year ago. Respectable, but far from spectacular. Income gains were also solid in September, with disposable (after-tax) income up 0.4%, the highest monthly increase since March. Real disposable income is up 1.9% from a year ago, which is enough to keep pushing consumer spending higher. The lion’s share of the income gains in September was due to worker compensation. Government transfers also added about a quarter of the gain, rising 0.5% in September, but this was after a decline in transfers in August. Government transfers are up 3.3% in the past year, while private-sector wages and salaries are up 4.6%. In other words, transfers are now holding down the growth rate of income. One factor that will help maintain spending growth in the year ahead is that households’ financial obligations – recurring payments like mortgages, rent, car loans/leases, as well as other debt service – are now the smallest share of income since 1984. This allows consumers to stretch their income gains further. On the inflation front, overall consumption prices were up 0.4% and the core PCE, which excludes food and energy, was up 0.1% in September. Overall prices and core prices are both up 1.7% in the past year, versus the Federal Reserve’s target of 2%. This is awfully close for a central bank running a very loose monetary policy. Expect higher inflation in the year ahead.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-12	Jul-12	Jun-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.1%	0.2%	2.6%	2.8%	3.9%
Disposable (After-Tax) Income	0.4%	0.1%	0.2%	2.6%	2.7%	3.6%
Personal Consumption Expenditures (PCE)	0.8%	0.5%	0.4%	7.1%	3.6%	3.8%
Durables	1.1%	1.3%	0.3%	11.2%	4.2%	6.5%
Nondurable Goods	1.7%	1.7%	0.7%	17.4%	4.1%	4.3%
Services	0.4%	0.0%	0.3%	3.1%	3.3%	3.2%
PCE Prices	0.4%	0.4%	0.1%	3.4%	1.5%	1.7%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.1%	1.4%	1.7%
Real PCE	0.4%	0.1%	0.3%	3.5%	2.1%	2.1%

Source: Bureau of Economic Analysis