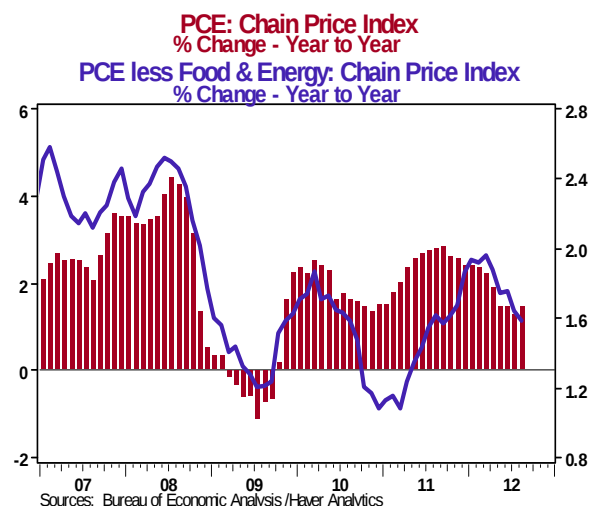
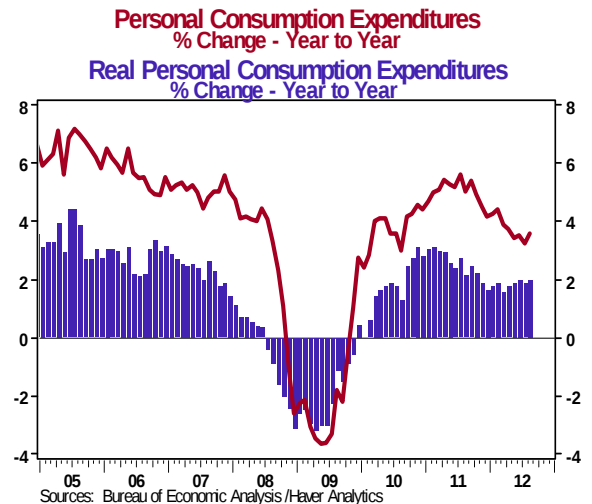


August Personal Income and Consumption

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- Personal income increased 0.1% in August, coming in slightly below the consensus expected gain of 0.2%. Personal consumption rose 0.5%, exactly as the consensus expected. In the past year, personal income is up 3.5%, while spending is up 3.6%.
- Disposable personal income (income after taxes) was up 0.1% in August and is up 3.3% from a year ago. The gain in income in August was led by dividends, which are up 7.6% from a year ago, and small business income, which is up 4.1% in the past year.
- The overall PCE deflator (consumer inflation) was up 0.4% in August and up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in August and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption was up 0.1% in August and is up 2.0% from a year ago.

Implications: The plow horse economy continues to push through the mud at the same modest pace. Consumer spending grew a healthy 0.5% in August, with consumers picking up more nondurable goods, probably a reflection of aggressive “back-to-school” buying. “Real” (inflation-adjusted) personal consumption was up 0.1% and, despite downward revisions to prior months, is 2% higher than a year ago. Respectable, but far from spectacular. Income gains were tepid in August, with disposable (after-tax) income up only 0.1%. However, real disposable income is up 1.8% from a year ago, which is enough to keep pushing consumer spending higher. Income gains are not due to artificial support from government transfers, which declined 0.1% in August. Real (inflation-adjusted) transfers are up only 1.2% in the past year, while real private-sector wages and salaries are up 2.9%. In other words, transfers are now holding down the growth rate of income. However, 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 August. Overall prices are up 1.5% in the past year while core prices are up 1.6%. Both are below the Federal Reserve’s target of 2%, but they are awfully close for a central bank with a very loose monetary policy. Expect higher inflation in the year ahead. In other news this morning, the Chicago PMI, which measures manufacturing activity in that region, fell to 49.7 in September from 53.0 in August, the lowest level since September 2009. Given this report as well as other data, we forecast that the ISM Manufacturing report will come in at 49.7 for September, up only slightly from 49.6 in August.



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	0.1%	0.1%	0.3%	2.3%	3.0%	3.5%
Disposable (After-Tax) Income	0.1%	0.1%	0.3%	2.1%	2.8%	3.3%
Personal Consumption Expenditures (PCE)	0.5%	0.4%	0.0%	3.7%	2.5%	3.6%
Durables	0.3%	0.1%	0.1%	2.1%	-0.6%	6.2%
Nondurable Goods	1.7%	0.8%	-0.5%	8.0%	2.2%	3.6%
Services	0.2%	0.3%	0.1%	2.5%	3.1%	3.1%
PCE Prices	0.4%	0.0%	0.1%	2.2%	1.2%	1.5%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.2%	1.4%	1.5%	1.6%
Real PCE	0.1%	0.4%	-0.1%	1.4%	1.3%	2.0%

Source: Bureau of Economic Analysis