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April Personal Income and Consumption

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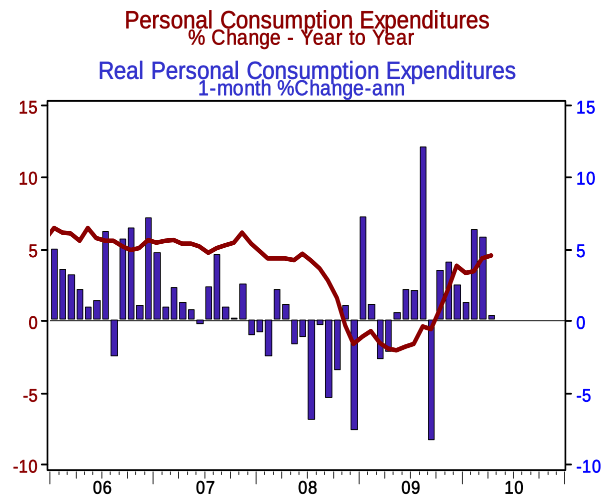
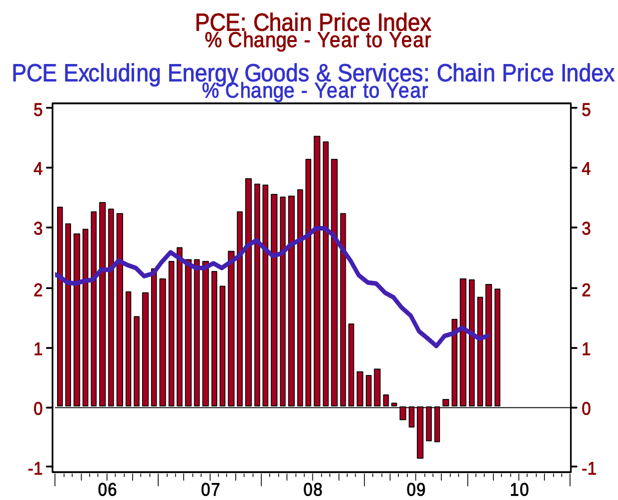
- Personal income was up 0.4% in April, exactly as the consensus expected. Personal consumption was unchanged in April, falling short of the consensus expected gain of 0.3%. In the last six months, personal income is up at a 4.1% annual rate while spending is up at a 4.7% rate.
- Disposable personal income (income after taxes) was up 0.5% in April (0.8% including revisions to prior months), led by private-sector wages/salaries as well as a surge in both dividends and small business profits.
- The overall PCE deflator (consumer inflation) was unchanged in April and is up at a 1.3% annual rate in the past six months. The "core" PCE deflator, which excludes food and energy, was up 0.1% in April and is up at a 0.8% rate in the past six months.
- After adjusting for inflation, "real" consumption was unchanged in April but is up at a 3.3% annual rate in the past six months.

Implications: Consumers took a well-earned breather in April, but we don't expect the lull to last. It's important to recognize that even during periods of strong economic growth, consumer spending typically *drops* about once every six months. And yet, despite consumer spending being unchanged in April, it is up at a 4.7% annual rate in the past six months and up at a 3.3% rate when adjusted for inflation. Moreover, notice how this growth is *after* the end of the cash-for-clunkers program. We expect renewed growth in consumer spending starting in May. Personal income is up at a 4.1% annual rate in the past six months, with private-sector wages and salaries up at a 3.2% rate. Meanwhile, the financial obligations of consumers (relative to their incomes) are down substantially from the peak in early 2008. A combination of higher incomes and a smaller share needed to service debts, means consumers have more money to spend. In other news this morning, the Chicago PMI, a measure of manufacturing in that region, came in at 59.7 in May versus 63.8 in April. This suggests continued rapid growth in the factory sector, although not quite as fast as in April.



Sources: Bureau of Economic Analysis /Haver Analytics



Sources: BEA, BEA/H /Haver

Personal Income and Spending *All Data Seasonally Adjusted*	Apr-10	Mar-10	Feb-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**0.4%**	0.4%	0.0%	3.4%	4.1%	2.5%
Disposal (After-Tax) Income	**0.5%**	0.4%	0.0%	3.8%	4.1%	2.8%
Personal Consumption Expenditures (PCE)	**0.0%**	0.6%	0.5%	4.6%	4.7%	4.6%
Durables	**0.0%**	3.7%	1.0%	20.5%	13.6%	10.2%
Nondurable Goods	**-0.6%**	0.3%	0.7%	1.7%	5.4%	7.6%
Services	**0.2%**	0.2%	0.4%	3.3%	3.1%	2.8%
PCE Prices	**0.0%**	0.1%	0.0%	0.5%	1.3%	2.0%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.0%	0.9%	0.8%	1.2%
Real PCE	**0.0%**	0.5%	0.5%	4.1%	3.3%	2.6%

Source: Bureau of Economic Analysis