May Personal Income and Consumption

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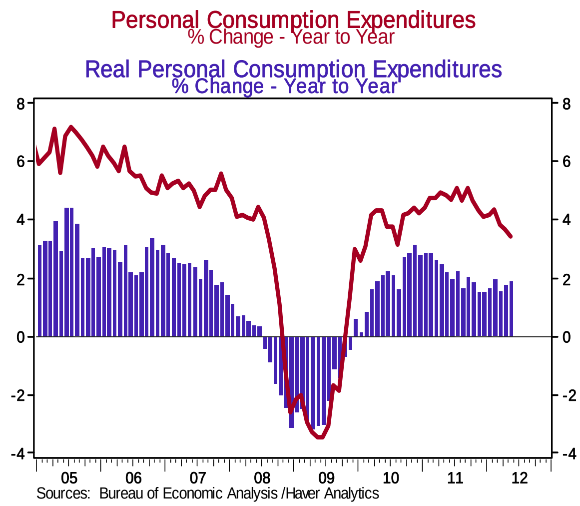
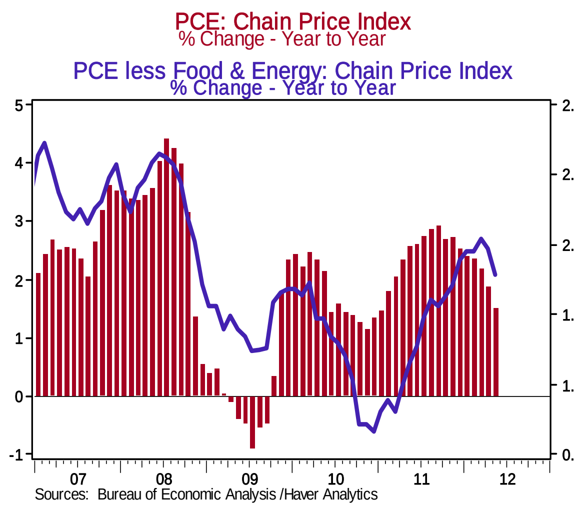
- Personal income increased 0.2% in May (0.3% including revisions to prior months) coming in exactly as the consensus expected. Personal consumption was unchanged in May, (-0.3% including downward revisions to prior months) also matching consensus expectations. In the past year, personal income is up 2.9% while spending is up 3.5%.
- Disposable personal income (income after taxes) was up 0.2% in May and is up 2.6% from a year ago. The gain in income in May was led by interest and dividend income. Private wages and salaries are up 3.9% in the past year, while government transfer payments are up only 0.6%.
- The overall PCE deflator (consumer inflation) was down 0.2% in May but up 1.5% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in May and is up 1.8% since last year.
- After adjusting for inflation, "real" consumption was up 0.1% in May (-0.2% including downward revisions for prior months) and is up 1.9% from a year ago.





Implications: As expected, the American consumer took a breather in May. As a result, it appears that real GDP is growing at about a 1.5% annual rate in the second quarter. But "real" (inflation-adjusted) personal consumption is still up a respectable 1.9% from a year ago and at an all-time record high. We expect spending to continue to move higher over the rest of the year as incomes continue to rise. In other words, real GDP should pick up as well in the second half. Real incomes are up 1.4% versus a year ago and up at a 3% annual rate in the past three months. This growth is not due to artificial support from government spending. Real private sector wages and salaries are up 2.4% in the past year, while real government transfer payments are down 0.9%. In addition, spending will also get a boost from a drop in households' financial obligations – recurring payments like mortgages, rent, car loans/leases, as well as other debt service – which are now the smallest share of income since 1993. Meanwhile, on the inflation front, the Fed's favorite gauge of inflation – core PCE, which excludes food and energy – is up 1.8% from a year ago, just ever so slightly still below their target of 2%. Given healthy spending patterns and inflation already close to the target, the Federal Reserve still has no justification for another round of quantitative easing. In other news this morning, the Chicago PMI index, which measures manufacturing activity in that area, came in at a 52.9 for June, beating consensus expectations. As a result, we expect an above-consensus 53.0 for next Monday's nationwide ISM manufacturing report.

Personal Income and Spending *All Data Seasonally Adjusted*	May-12	Apr-12	Mar-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.2%**	0.2%	0.4%	3.3%	3.8%	2.9%
Disposable (After-Tax) Income	**0.2%**	0.2%	0.4%	3.0%	3.4%	2.6%
Personal Consumption Expenditures (PCE)	**0.0%**	0.1%	0.1%	0.7%	3.6%	3.5%
Durables	**-0.4%**	-0.2%	-1.7%	-8.8%	4.4%	6.4%
Nondurable Goods	**-0.8%**	-0.3%	0.7%	-1.8%	2.4%	2.7%
Services	**0.3%**	0.4%	0.2%	3.4%	3.8%	3.2%
PCE Prices	**-0.2%**	0.0%	0.2%	0.3%	1.5%	1.5%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.2%	1.8%	2.0%	1.8%
Real PCE	**0.1%**	0.1%	-0.2%	0.4%	2.1%	1.9%

Source: Bureau of Economic Analysis