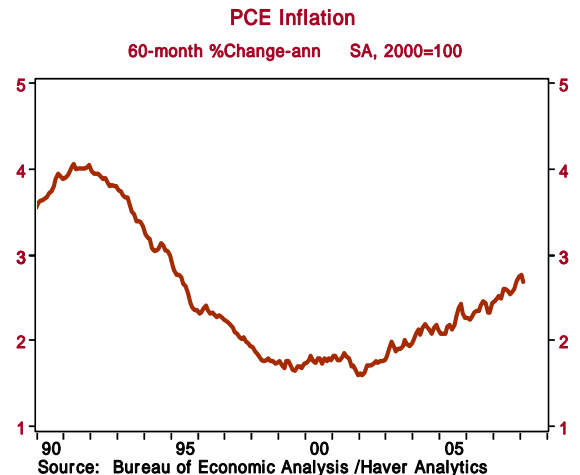
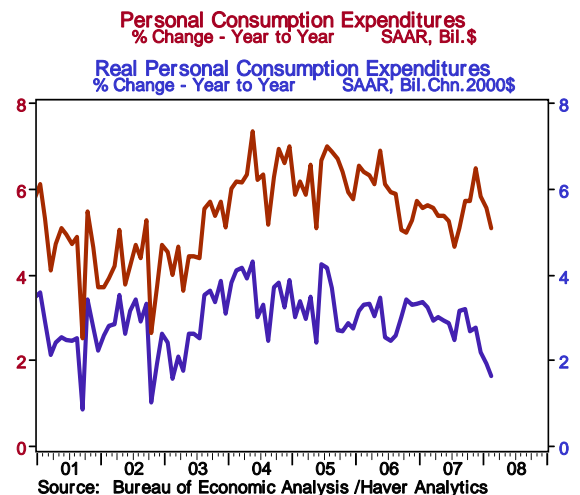


FEBRUARY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in February, beating the consensus expected gain of 0.3%. Personal consumption grew 0.1%, matching consensus expectations.
- Disposable personal income (income after taxes) also increased 0.5% in February and is up 4.7% versus a year ago.
- The overall PCE deflator (consumer price inflation) rose 0.1% in February and is up 3.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in February and is up 2.0% versus a year ago.
- After adjusting for inflation, real consumption was unchanged in February.

Implications: Real (inflation-adjusted) consumption was unchanged in February, has been essentially flat for the past three months, and is up only 1.7% versus a year ago – the weakest since early 2003. However, disposable personal income continues to grow at a healthy pace and should provide for a rebound in consumption growth in the next few months. It is also important to note that because exports are booming, we can sustain slower growth in domestic consumption without having a recession. We still estimate that real GDP will grow at about a 2% annual rate in the first quarter, with about half of this growth accounted for by the declining trade deficit. Today’s inflation data were better than the consensus expected, but still bad. Overall PCE prices are up 3.4% versus a year ago. Although many analysts focus on the relatively benign readings on “core” inflation – up only 0.1% in February and 2% versus last year – these figures are masking the underlying inflation trend by always ignoring food and energy price increases.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Feb-08	Jan-08	Dec-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.5%	0.3%	0.4%	4.8%	4.4%	4.6%
Disposal (After-Tax) Income	0.5%	0.4%	0.4%	5.5%	4.6%	4.7%
Personal Consumption Expenditures (PCE)	0.1%	0.4%	0.2%	3.1%	5.3%	5.1%
Durables	0.3%	-0.7%	-1.0%	-5.7%	-3.4%	-0.5%
Nondurable Goods	-0.2%	0.6%	0.2%	1.9%	7.4%	6.7%
Services	0.3%	0.6%	0.5%	5.4%	5.9%	5.4%
PCE Prices	0.1%	0.3%	0.3%	2.8%	3.8%	3.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.2%	2.1%	2.4%	2.0%
Real PCE	0.0%	0.1%	-0.1%	0.3%	1.4%	1.7%

Source: Bureau of Economic Analysis

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