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August Personal Income and Consumption

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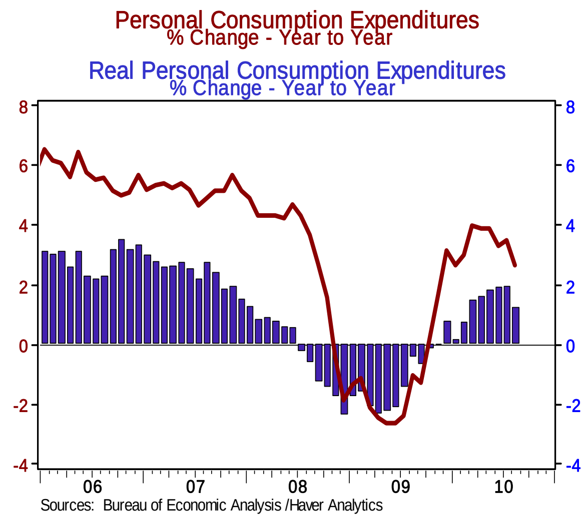
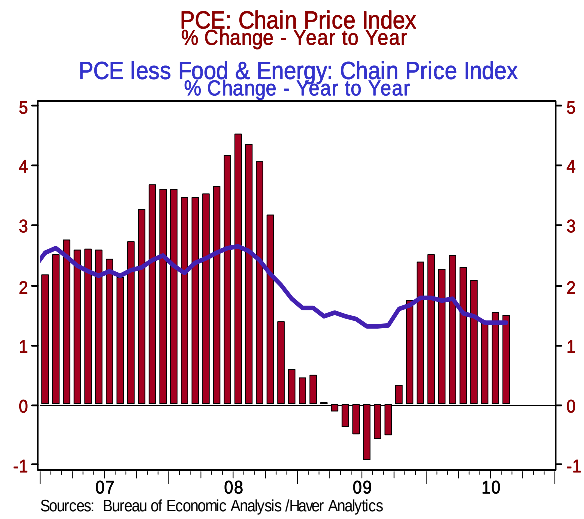
- Personal income increased 0.5% in August while personal consumption increased 0.4%, both beating consensus expected gains of 0.3%. In the last six months, personal income is up at a 3.8% annual rate while spending is up at a 2.8% rate.
- Disposable personal income (income after taxes) was up 0.5% in August and is up at a 3.7% annual rate in the past six months. The gain in August was led by growth in wages and salaries in the private sector as well as a renewal of funds for extended unemployment benefits.
- The overall PCE deflator (consumer inflation) increased 0.2% in August and is up 1.5% versus a year ago. The "core" PCE deflator, which excludes food and energy, gained 0.1% in August and is up 1.4% since last year.
- After adjusting for inflation, "real" consumption was up 0.2% in August and is up at a 2.0% annual rate in the past six months.





Implications: The double-dip is not just dead; it's buried six feet deep. Real (inflation-adjusted) consumer spending grew for the fourth month in a row in August and the sixth month in the last seven. We are not at all concerned that real spending is only 1.2% above last year's level. August 2009 was the expiration of cash for clunkers, which artificially lifted sales that month. In the past six months, real spending is up at a 2% annual rate and we expect this growth rate to accelerate in the year ahead. The first reason is that worker pay is increasing in the private sector. In the past six months, real private-sector wages and salaries are up at a 3.4% annual rate, more than enough to support faster spending growth. Second, although households are still paying down their debts, they are doing so more slowly than a year ago, leaving more room to spend. Third, the financial obligations ratio, which measures the share of after-tax income consumers need to make recurring payments (mortgages, rent, car loans/leases, student loans, credit cards,…etc.), is down substantially from levels reached two years ago and below the average for the past 30 years. On the inflation front, consumption prices are up only 1.5% versus a year ago. This measure should remain relatively low (on a year-ago comparison basis) through the end of 2010 but should start rising noticeably in 2011.

Personal Income and Spending *All Data Seasonally Adjusted*	Aug-10	Jul-10	Jun-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.5%**	0.2%	0.0%	2.7%	3.8%	3.3%
Disposal (After-Tax) Income	**0.5%**	0.1%	0.0%	2.2%	3.7%	3.2%
Personal Consumption Expenditures (PCE)	**0.4%**	0.4%	0.0%	3.1%	2.8%	2.7%
Durables	**-0.1%**	1.0%	-0.5%	1.6%	5.1%	-1.7%
Nondurable Goods	**1.4%**	0.4%	-0.4%	5.5%	0.7%	4.1%
Services	**0.2%**	0.3%	0.1%	2.6%	3.1%	2.9%
PCE Prices	**0.2%**	0.2%	-0.1%	1.3%	0.7%	1.5%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.1%	1.1%	1.2%	1.4%
Real PCE	**0.2%**	0.2%	0.1%	1.8%	2.0%	1.2%

Source: Bureau of Economic Analysis