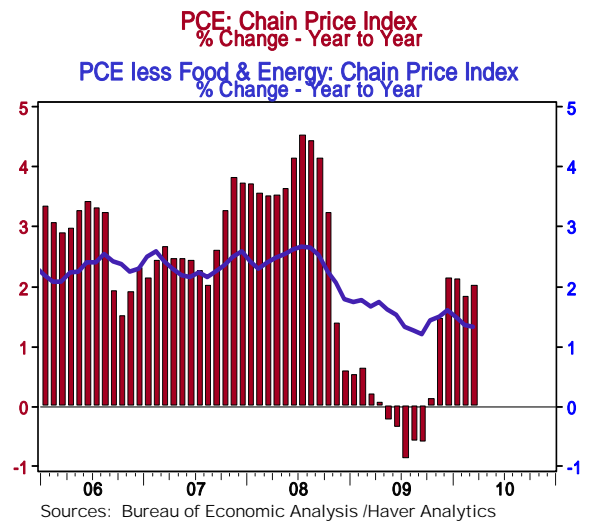
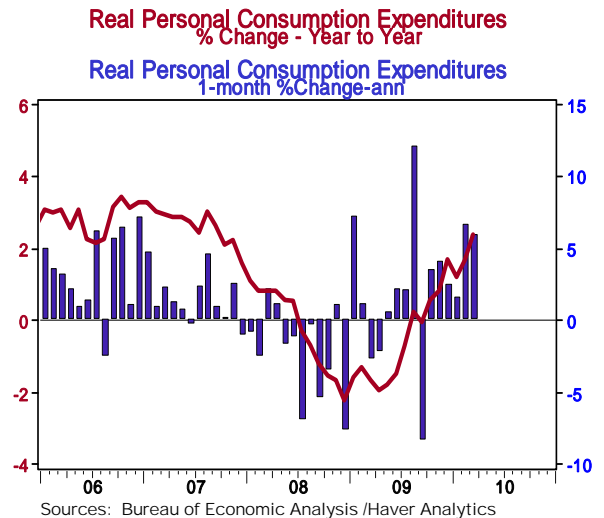


MARCH PERSONAL INCOME AND CONSUMPTION

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Personal income was up 0.3% in March, while personal consumption increased 0.6%, both exactly as the consensus expected. Including upward revisions to January/February, income was up 0.5% and spending increased 0.7%.
- Disposable personal income (income after taxes) was up 0.3% in March (0.4% including revisions to prior months), led by wages/salaries and unemployment compensation. Disposable income is up 3.4% in the past year.
- The overall PCE deflator (consumer inflation) was up 0.1% in March and is up at a 1.8% annual rate in the past six months. The “core” PCE deflator, which excludes food and energy, was also up 0.1% in March and is up at a 1.1% rate in the past six months.
- After adjusting for inflation, “real” consumption increased 0.5% in March (0.6% including prior revisions) and is up at a 4.0% annual rate in the past six months.

Implications: American consumers increased their spending for the sixth straight month in March, both on a nominal (or cash) basis and on a “real” (inflation-adjusted) basis. Inflation-adjusted consumer spending is up at a 4% annual rate since September and it is important to notice that this whole period is *after* cash for clunkers. In addition, “real” consumer spending is now 0.5% higher than it was at the pre-recession peak in November 2007. Some analysts remain befuddled by the gains in spending given what they believe are continued high debt levels. However, they are missing the fact that workers can both increase their spending and continue to pay down debt, just as long as debt reductions are slower than before or incomes are rising. Here’s a simple example. If you made \$50,000 after taxes last year and paid down \$10,000 in debt, you could spend \$40,000. If you make the same \$50,000 this year and only pay down \$5,000 in debt, you can spend \$45,000! No longer in a panic, US consumers are starting to pay down their debts at a slower pace and after-tax incomes are 3.4% higher than a year ago. Private sector wages and salaries increased at a 3.1% annual rate in Q1, the fastest pace in more than two years.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Mar-10	Feb-10	Jan-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.3%	0.1%	0.4%	3.0%	3.5%	3.0%
Disposal (After-Tax) Income	0.3%	0.0%	-0.2%	0.6%	2.5%	3.4%
Personal Consumption Expenditures (PCE)	0.6%	0.5%	0.3%	5.8%	5.9%	4.5%
Durables	3.6%	0.8%	-1.0%	14.2%	17.8%	8.3%
Nondurable Goods	0.3%	0.5%	1.5%	10.0%	6.9%	7.7%
Services	0.2%	0.5%	0.1%	3.2%	3.8%	2.9%
PCE Prices	0.1%	0.0%	0.2%	1.1%	1.8%	2.0%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.0%	0.5%	1.1%	1.3%
Real PCE	0.5%	0.5%	0.1%	4.7%	4.0%	2.4%

Source: Bureau of Economic Analysis