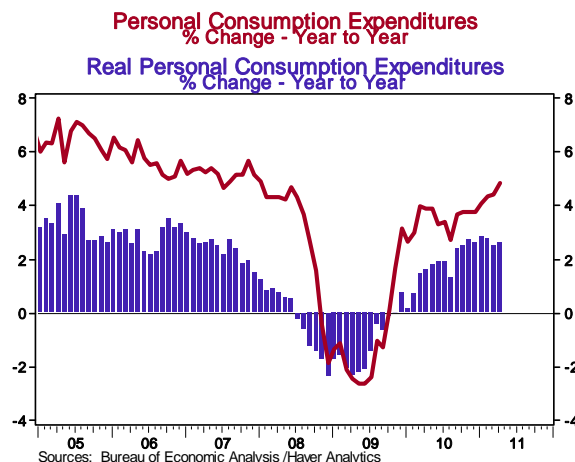


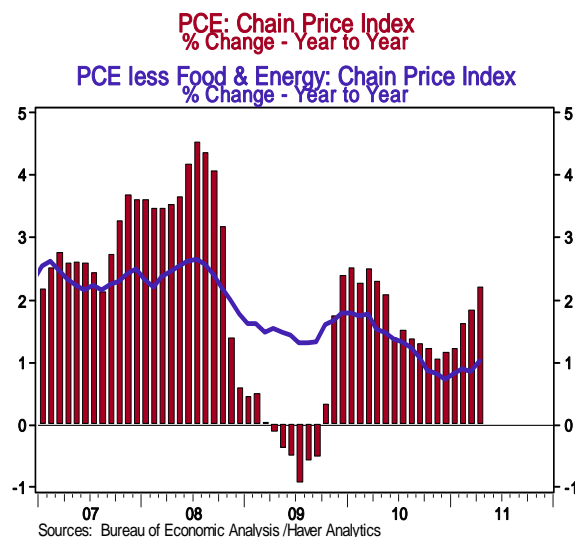
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April Personal Income and Consumption

- Personal income increased 0.4% in April, exactly as the consensus expected. Personal consumption also increased 0.4%, slightly less than the consensus expected. Including revisions to prior months, income was down 0.1% while consumption was up 0.2%. In the past six months, personal income is up at a 5.8% annual rate while spending is up at a 5.7% annual rate.
- Disposable personal income (income after taxes) was up 0.3% in April (but down 0.5% including revisions to prior months). Disposable income is up at a 4.2% annual rate in the past six months. The rise in April was led by private-sector wages and salaries.
- The overall PCE deflator (consumer inflation) increased 0.3% in April and is up 2.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in April and is up 1.0% since last year.
- After adjusting for inflation, “real” consumption rose 0.1% in April and is up at a 2.1% annual rate in the past three months.



Implications: Consumer spending keeps growing at a healthy clip, although inflation is now taking a larger bite. Nominal consumer spending is up 4.8% versus a year ago, but up at an even faster 6.8% annual rate in the past three months. The acceleration in spending corresponds to acceleration in private-sector wages and salaries, which are up 4.1% versus a year ago but at a 5.6% annual rate in the past three months. The negative is that inflation has been accelerating as well. Consumption prices are up a moderate 2.2% versus a year ago, but are up at a 3.6% annual rate in the past six months and a 4.6% annual rate in the past three months. Although “core” consumption inflation (which excludes food and energy) is at a lower level, it is also accelerating, up 1% versus a year ago but up at a 1.9% annual rate in the past three months. Given that commodity prices are off their recent highs, some of the headline inflation will temporarily abate over the next couple of months, but core inflation should continue to worsen. This is an economic problem that calls out for a tighter monetary policy, not the continuation of an overly loose policy. Longer term, “real” (inflation-adjusted) consumer spending should strengthen. Consumer balance sheets are healthier and their financial obligations (monthly payments like mortgages, rent, car loans/leases, as well as other debt service), are the smallest share of disposable income since 1995.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Apr-11	Mar-11	Feb-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.4%	0.4%	4.7%	5.8%	4.4%
Disposal (After-Tax) Income	0.3%	0.4%	0.3%	4.2%	4.2%	3.3%
Personal Consumption Expenditures (PCE)	0.4%	0.5%	0.8%	6.8%	5.7%	4.8%
Durables	0.3%	-0.7%	2.2%	7.6%	5.1%	8.1%
Nondurable Goods	0.8%	0.9%	1.4%	13.7%	12.1%	8.5%
Services	0.2%	0.6%	0.3%	4.4%	3.7%	3.1%
PCE Prices	0.3%	0.4%	0.4%	4.6%	3.6%	2.2%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.2%	1.9%	1.5%	1.0%
Real PCE	0.1%	0.1%	0.4%	2.1%	2.0%	2.6%

Source: Bureau of Economic Analysis