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August Personal Income and Consumption

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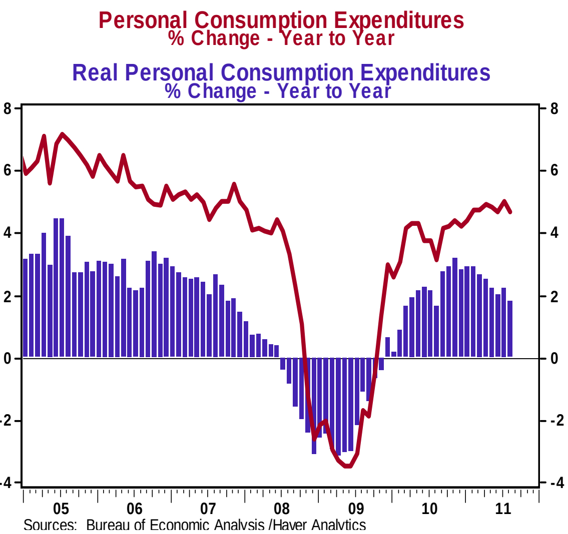
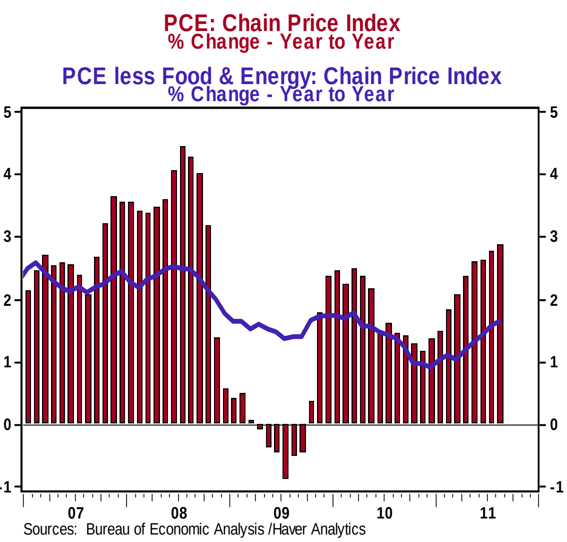
- Personal income declined 0.1% in August (-0.3% including revisions to prior months) versus a 0.1% consensus expected gain. Personal consumption rose 0.2%, matching consensus expectations. In the past year, personal income is up 4.5% while spending is up 4.7%.
- Disposable personal income (income after taxes) was unchanged in August but down 0.3% including revisions to prior months. Disposable income is up 3.2% from a year ago. The weakness in August was due to private-sector wages and salaries; small business income grew 0.6%.
- The overall PCE deflator (consumer inflation) increased 0.2% in August and is up 2.9% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in August and is up 1.6% since last year.
- After adjusting for inflation, "real" consumption was unchanged in August (-0.1% including revisions to prior months), but up 1.8% from a year ago.





Implications: Considering all the financial volatility in August, personal spending held up well, continuing to grow on a nominal, or cash, basis and remaining unchanged even with inflation factored in. What matters is what comes next and auto analysts estimate that sales increased substantially in September. In turn, this suggests the softness in August was temporary. The negative surprise was the decline in personal income. However, these data were probably affected by the temporary Verizon strike in August. As a result, we expect a rebound in income in September. On the inflation front, overall consumption prices rose 0.2% in August and are now up 2.9% from a year ago. Meanwhile, "core" consumption prices, which exclude food and energy, were up 0.1% in August, are up 1.6% in the past year, and are up at a 2.2% annual rate in the past six months. Given loose monetary policy, we expect inflation to get worse in the year ahead. In other recent news, the Labor Department says it thinks it *underestimated* payroll gains from March 2010 to March 2011 by 192,000 or 16,000 per month. Labor issues an estimate like this every year based on analysis of jobless claims. On the housing front, pending home sales, which are contracts on existing homes, declined 1.2% in August. The biggest decline came in the Northeast, where flooding may have temporarily deterred homebuyers. The best news this morning was that the Chicago PMI, which measures manufacturing activity in that region, increased to 60.4 in September from 56.5 in August. The consensus had expected a decline. The sub-indexes for production, employment and new orders all soared above 60.

Personal Income and Spending *All Data Seasonally Adjusted*	Aug-11	Jul-11	Jun-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**-0.1%**	0.1%	0.2%	1.0%	2.8%	4.5%
Disposal (After-Tax) Income	**0.0%**	0.1%	0.1%	0.9%	2.4%	3.2%
Personal Consumption Expenditures (PCE)	**0.2%**	0.7%	-0.2%	2.9%	3.6%	4.7%
Durables	**-0.1%**	2.2%	-1.3%	3.0%	-1.6%	6.5%
Nondurable Goods	**0.3%**	0.5%	-0.6%	0.8%	3.7%	7.7%
Services	**0.2%**	0.6%	0.1%	3.7%	4.5%	3.4%
PCE Prices	**0.2%**	0.4%	-0.1%	2.0%	2.8%	2.9%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.2%	0.2%	2.0%	2.2%	1.6%
Real PCE	**0.0%**	0.3%	-0.1%	1.0%	0.8%	1.8%

Source: Bureau of Economic Analysis