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January Personal Income and Consumption

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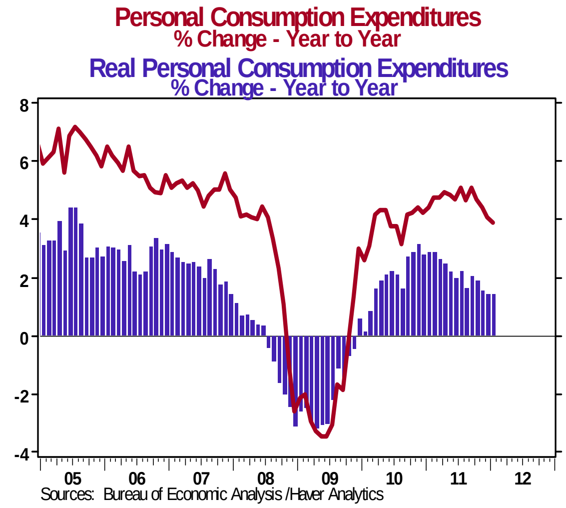
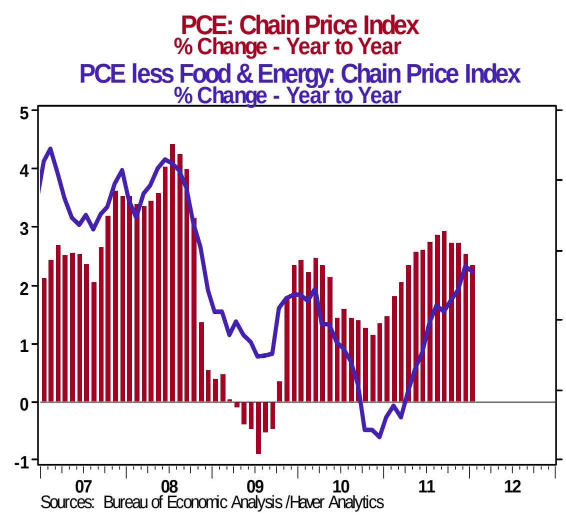
- Personal income increased 0.3% in January while personal consumption rose 0.2%. Including revisions for prior months, income was up 1.0% and consumption up 0.4%. The consensus expected a gain of 0.5% for income and 0.4% for consumption. In the past year, personal income is up 3.6% while spending is up 3.8%.

- Disposable personal income (income after taxes) was up 0.1% in January (1.1% including revisions for prior months) and is up 3.0% from a year ago. Increases in worker compensation led the way in January. Social security payments increased 2.8% (retirees finally got a COLA), but overall government transfers declined.

- The overall PCE deflator (consumer inflation) was up 0.2% in January and 2.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.2% in January and is up 1.9% since last year.

- After adjusting for inflation, "real" consumption was flat in January, but is up 1.4% from a year ago.





Implications: Personal income and spending were up modestly in January itself, with both rising but moving up less than the consensus expected. However, consistent with yesterday's update on quarterly GDP and income, prior months were revised up. As a result, income was 1% higher than we previously thought, while spending was 0.4% higher. "Real" (inflation-adjusted) consumer spending was unchanged in January, just like November and December. But this recent trend is unlikely to last. *Excluding transfer payments*, "real" (inflation–adjusted) personal income was up 0.2% in January and up 1.9% from a year ago. Meanwhile, in the past year, real private-sector wages and salaries plus real small business profits are up 3.2% - that means this income is rising 3.2% faster than inflation. In addition to these income gains, consumer spending will be supported by the large reduction in households' financial obligations the past few years. Recurring payments like mortgages, rent, car loans/leases, as well as other debt service, are now the smallest share of after-tax income since 1993. On the inflation front, overall consumption prices are up 2.4% in the past year, above the Fed's supposed target of 2%. "Core" prices are up 1.9% from a year ago, the most since 2008. Given the loose stance of monetary policy, we expect inflation to accelerate in the year ahead, both overall and for the core. In other news this morning, new claims for unemployment insurance declined 2,000 last week to 351,000. The four-week average dropped to 354,000, the lowest since March 2008. Continuing claims dipped 2,000 to 3.40 million, the lowest since August 2008. These data suggest we had another month of robust payroll growth in February.

Personal Income and Spending *All Data Seasonally Adjusted*	Jan-12	Dec-11	Nov-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.3%**	0.5%	0.0%	3.2%	3.2%	3.6%
Disposable (After-Tax) Income	**0.1%**	0.4%	0.0%	2.1%	2.5%	3.0%
Personal Consumption Expenditures (PCE)	**0.2%**	0.0%	0.1%	1.3%	2.9%	3.8%
Durables	**0.9%**	0.5%	0.0%	6.0%	9.4%	6.0%
Nondurable Goods	**0.4%**	-0.8%	-0.2%	-2.3%	1.6%	4.3%
Services	**0.0%**	0.2%	0.2%	1.8%	2.2%	3.4%
PCE Prices	**0.2%**	0.1%	0.1%	1.4%	1.6%	2.4%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.1%	0.1%	1.9%	1.5%	1.9%
Real PCE	**0.0%**	0.0%	0.0%	-0.1%	1.3%	1.4%

Source: Bureau of Economic Analysis