

Personal income increased 0.2% in August – the same as in July. Wage and salary disbursements, which account for just over one-half of personal income, increased 0.2% for the second straight month in August. Prior to the July increase, wage and salary disbursements declined for eight straight months. Compared with a year earlier, wage and salary disbursements were down 5.2% – a new low for the cycle. Personal income was off 2.6% from a year earlier, up from a year-over-year decline of 3.4% in June.

Personal consumption expenditures increased 1.3% in August, reflecting the rebate-induced increase in motor vehicle sales and solid gains in other categories. In inflation-adjusted terms, purchases of motor vehicles and parts increased 12.9%. Real spending on furnishings (+1.0%), recreational goods and vehicles (+4.0%) and other durables (+1.8%) also increased. Real spending on nondurable goods posted broad-based increases, with gains in clothing of 2.0%, gasoline and other energy goods of 1.8% and other nondurable goods of 0.8%. Real spending on services increased a modest 0.2%.

The slump in light motor vehicle sales to 9.2 million units in September from 14.1 million in August, following the termination of the CARS program, subtracted significantly from overall spending during the month. The effect of the CARS program on sales in the near future remains uncertain. The September sales rate of 9.2 million units was only slightly below the 9.5 million unit average during the six months prior to the July-August program. Sales will be lower for a period of months than they would have been in the absence of the program to the degree that the incentives accelerated the timing of purchases.

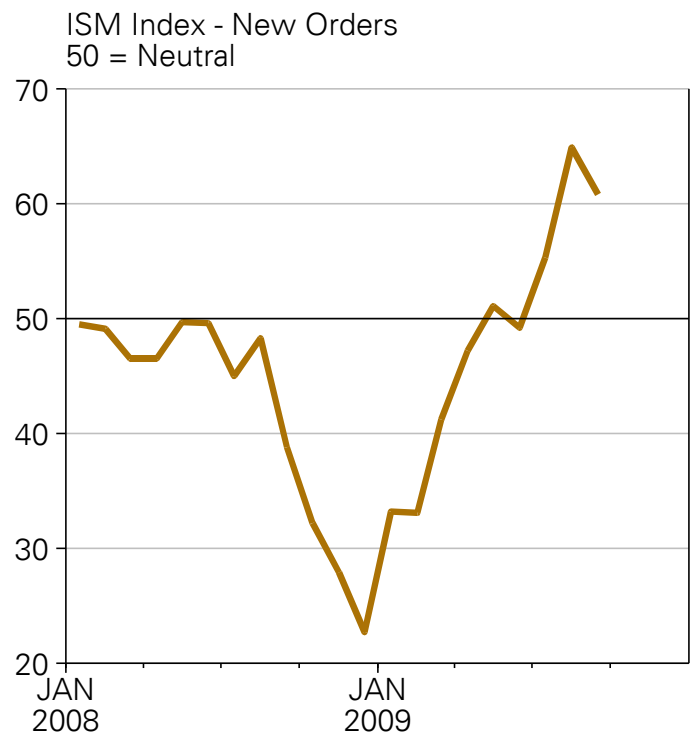
Outside of motor vehicles, Consumer spending has recovered somewhat. Chain store sales managed a rise of 0.3% in the week ending October 2, suggesting that consumers remain constrained. Compared with a year earlier, chain store sales were higher by 1.0%, up from a 2.0% change from August 2008 to August 2009.

Factory shipments and new orders both edged down in August. The recent pattern suggests that the steep decline has ended, but has not yet been followed by growth. Shipments fell 0.3%. New orders were down 0.8%.

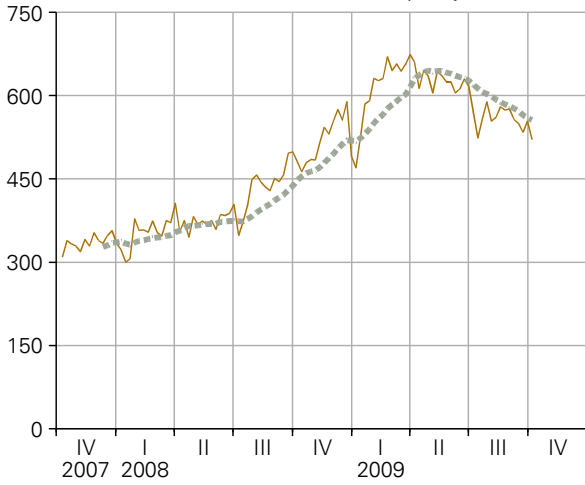
Auto sales lifted consumer spending in August, but fell flat in September. The slide in industrial activity has stopped, but growth remains uncertain.

Purchasing managers at manufacturing companies indicated that activity stabilized in September. The ISM index was little changed in September from August. The important component indexes for new orders and production slipped notably on the month. Reports on other aspects of activity were mixed. The one-month pause in the sharp rebound in the ISM index since its historic low last December is not unusual, as the indicator typically moves in an erratic pattern around its cycle, but it does suggest that manufacturing activity might be slowing very soon after lift-off.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



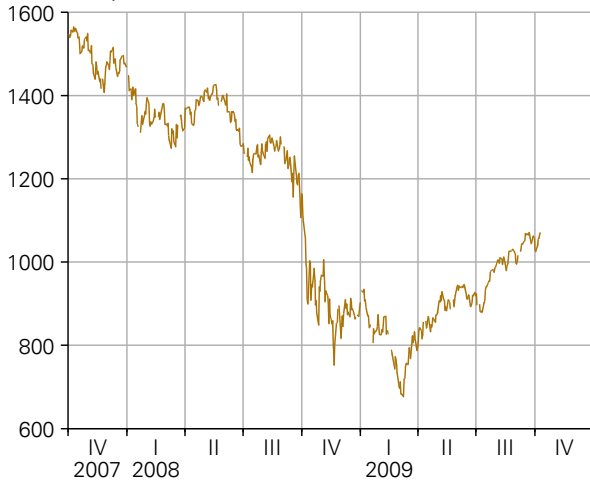
Price of Oil
West Texas Int, \$/bbl



Price of Gold
London PM Fixing, \$/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA

