FEDERAL RESERVE BANK of ATLANTA

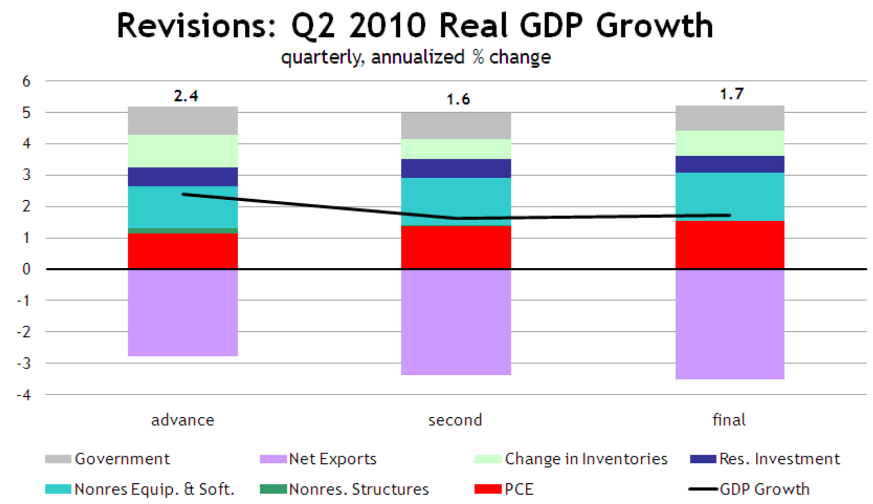
October 6, 2010

Economic Highlights

Economic Activity

Summary

Real GDP was revised up slightly to 1.7% for Q2 2010, according to the BEA's third estimate.



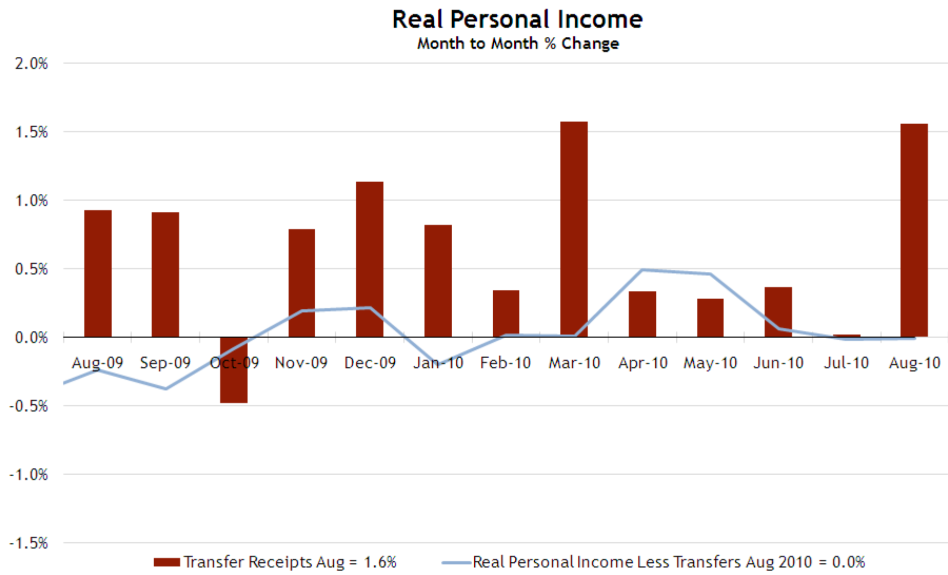
Source: U.S. Bureau of Economic Analysis

- The components of GDP growth were little changed in the final estimate for Q2 2010. The slight upward revision reflected more consumer spending and inventory investment than in the second release. Meanwhile, imports were revised down.
- Consumer spending (PCE) rose 2.2%, revised up from 2% in the second release.
- The level of change in inventories was $68.8 billion in Q2, up from $63.2 billion in the second release.
- Net exports subtracted 3.5 percentage points from real GDP growth in Q2, with exports growing 9.1% and imports growing 33.5%, up from 32.4% in the second release.

Consumer Spending

Summary

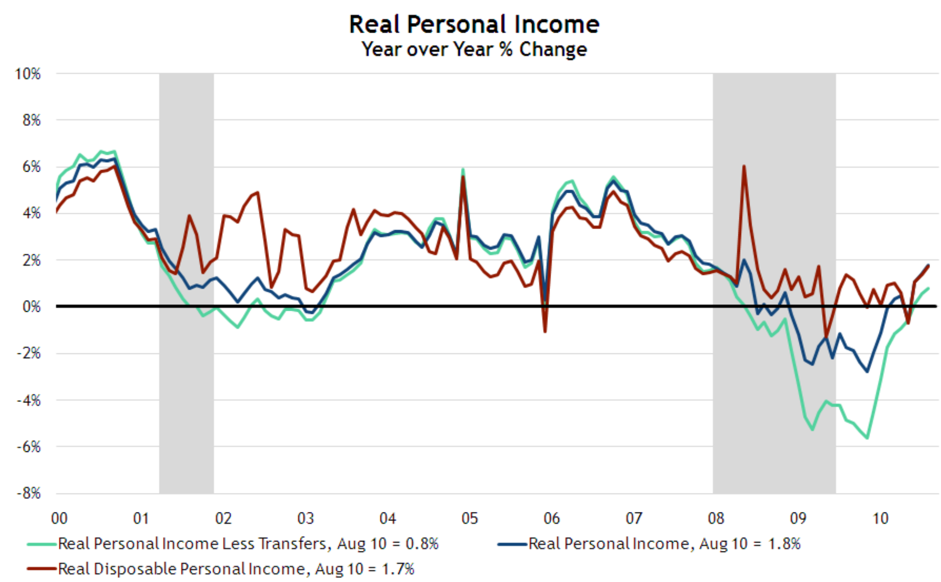
Real personal income increased in August, reflecting a boost from transfer payments.



Source: BEA

- Real personal income rose 0.2% in August, reflecting a boost from transfer receipts, which include unemployment insurance benefits. Real personal income excluding transfer payments was flat over the month.
- On an annual basis, real personal income and real personal disposable income continued to increase compared with a year earlier, by 1.8% and 1.7%, respectively. Real personal income less transfers increased 0.7% over the year.

On a year-over-year basis, real personal income continues to increase, albeit slowly.



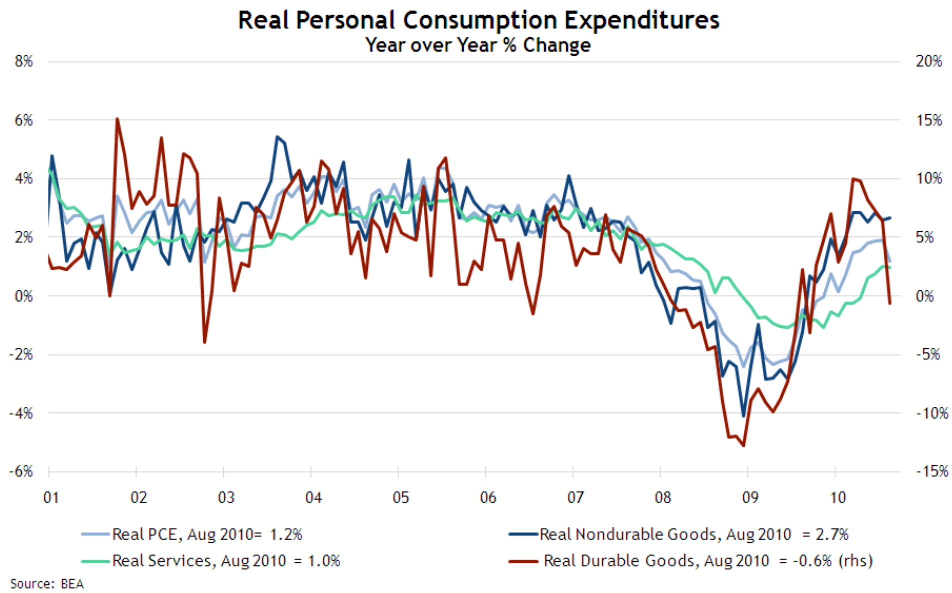
Source: BEA, Haver

Consumer Spending

Summary

Real personal consumption expenditures (PCE) increased in August and were concentrated in spending on nondurables.

Compared with a year earlier, PCE remains below the pace of spending during previous economic expansions.

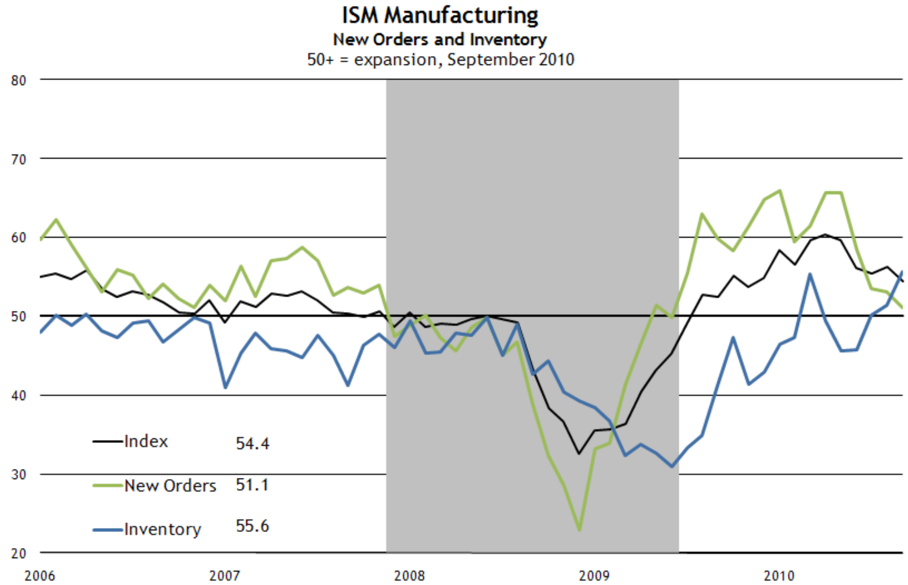


- In August, real PCE rose 0.2%, reflecting a 0.8% increase in nondurable spending over the month while spending on services was flat and durable goods fell 0.2%.
- On a year-over year basis, real PCE increased 1.2%, still below the average growth of consumer spending over the past economic expansions of about 3%. The overall rate was held down by a drop in the year-over-year rate of spending on motor vehicles and parts.

Manufacturing

Summary

Although the overall ISM's purchasing managers index remained strong for September, the index had weaker underlying components for the month.



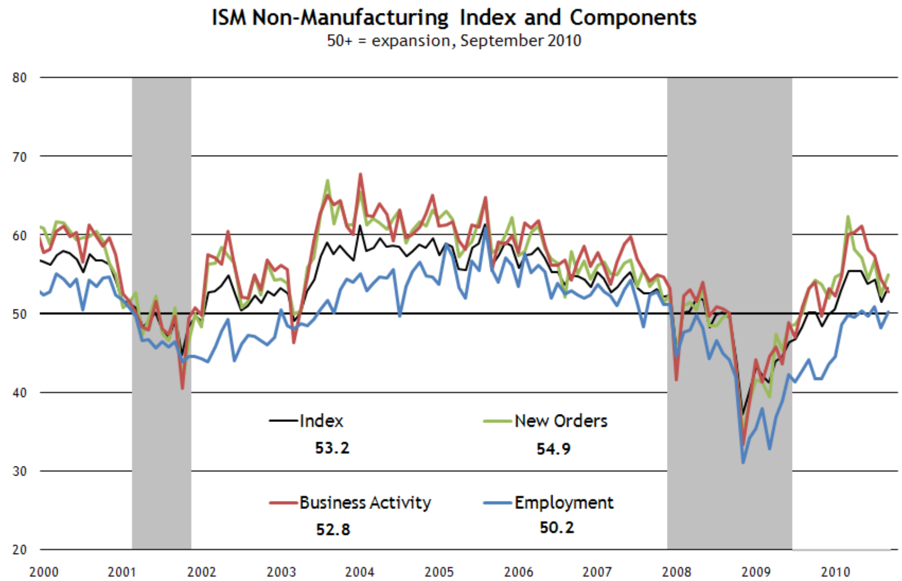
Source: Institute for Supply Management

- The Institute for Supply Management's Purchasing Managers Index **lost 1.9 index points** in September to reach 54.4. According to this survey, the manufacturing sector has been growing for 14 months.
- The index for **new orders, a leading indicator of the index, dropped 2 index points** for the month, a result of 26% of respondents saying that orders were higher from August to September (a 3 percentage point decline month over month) and 52% saying that orders were at the same level as the month before; 22% said orders had declined from month to month.
- The index's **inventory component gained 4.2 index points** to reach 55.6, an elevated level for that index. This gain was a result of 27% of respondents reporting higher levels of inventory in September, up from 19% that said the same in August. The inventory index has added 10 index points since June, a fast climb for any ISM component.
- The production and employment indices remained elevated at 56.5.

Manufacturing

Summary

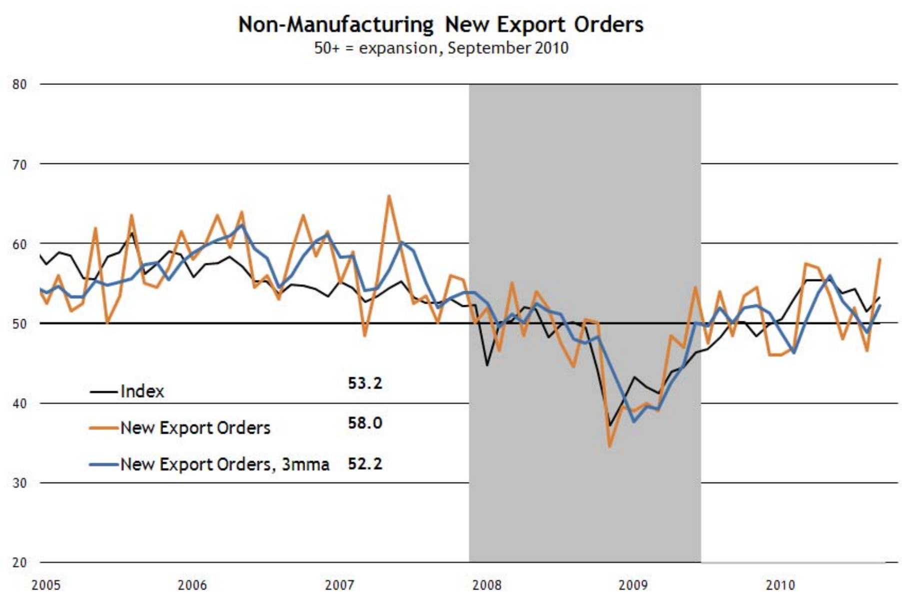
The ISM's survey of nonmanufacturers was slightly more upbeat than the manufacturing survey. New orders rose 2.5 index points.



Source: Institute for Supply Management

- The Institute for Supply Management's nonmanufacturing purchasing managers index was more positive in September. **The overall index added 1.7 index points to reach 53.2.**
- An index parallel to the manufacturing survey's measure of production, the ISM nonmanufacturing **index on overall business activity dropped 1.6 index points to reach 52.8.**
- In September, **new orders for nonmanufacturers gained 2.5 index points to reach 54.9**.
- The employment index for nonmanufacturers barely tipped the 50-point mark indicative of growth for the index. The index added 2 index points in September to reach 50.2.
- **New export orders shot up 11.5 index points in September to reach 58**.

Often a minor part of the ISM nonmanufacturing release, new export orders shot up 11.5 index points in September.

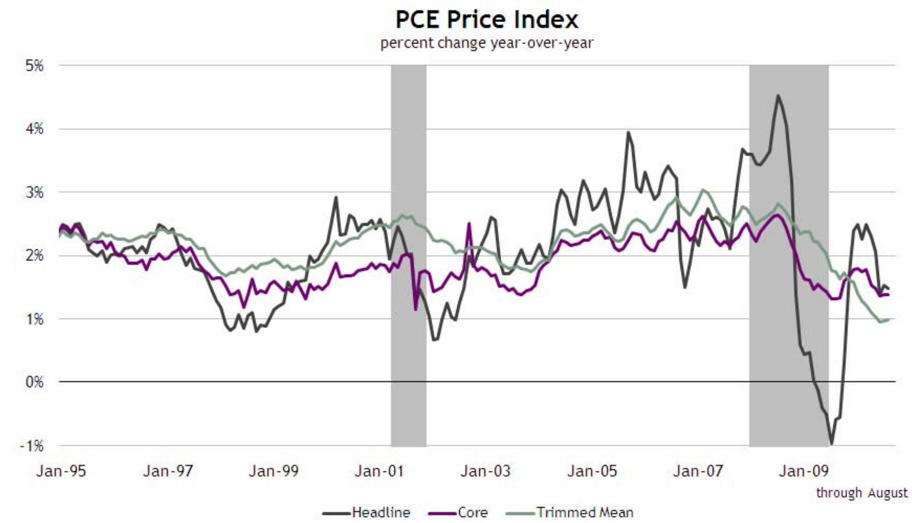


Source: Institute for Supply Management

Prices

Summary

Headline PCE inflation maintained its low growth trend in August.



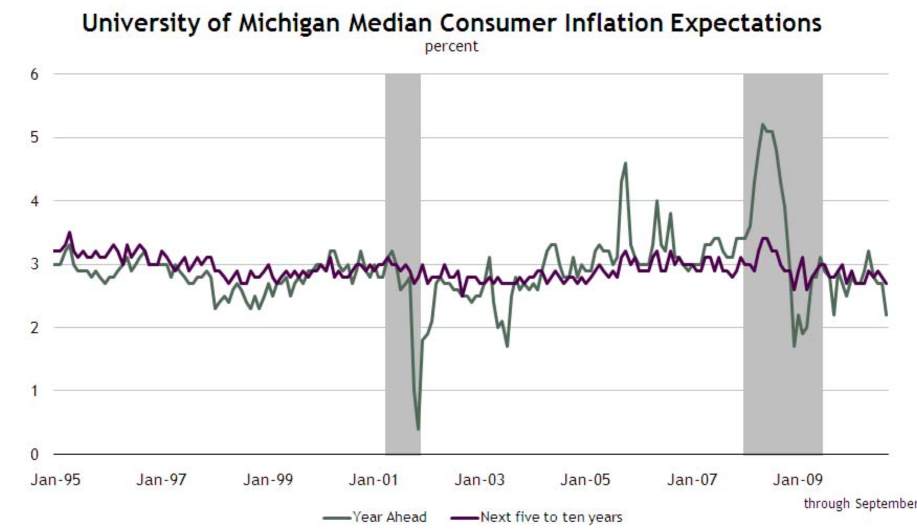
Source: Bureau of Economic Analysis, FRB Dallas

- August headline inflation, as measured by the consumer spending deflator, was up 2.9% on an annualized monthly basis, up modestly from a growth pace of 2.7% in July (annual rate), which followed three consecutive months of declines. Headline PCE prices were up 1.5% year over year.
- Core (less food and energy) PCE prices increased by 1.4% (annual rate) in August, up from 1.1% the month before. Year-over-year core PCE inflation was 1.4%, unchanged from the month before.
- The Dallas Fed trimmed mean 12-month PCE inflation rose 1.5% (annual rate) in August, marking the index's largest one-month gain since October 2009. The inflation statistic remained steady on both a six- and 12-month annualized basis, growing 0.7% and 1%, respectively, in August.

Prices

Summary

Survey data compiled in September by the University of Michigan showed both near- and longer-term consumer inflation expectations down from July.



Source: University of Michigan

- According to the University of Michigan's inflation expectations survey, the median inflation rate expected by consumers 12 months out was 2.2% in September, unchanged from mid-month estimates release two weeks earlier, marking the lowest reading since September 2009.
- The median expectation for inflation in five to 10 years was 2.7% in mid-September, down from 2.8% reported earlier in the month.