



Technical Note
Personal Income and Outlays
July 2009
Released: August 28, 2009

This technical note provides background information about the source data and estimating methods used to produce the estimates presented in the personal income and outlays news release. The complete set of estimates for July is available on BEA's Web site at www.bea.gov; a brief summary of "highlights" is also posted on the Web site.

Personal income and outlays

In July, personal income increased less than 0.1 percent, disposable personal income decreased less than 0.1 percent, and personal consumption expenditures (PCE) increased 0.2 percent. After adjusting to remove price changes, real disposable income decreased 0.1 percent and real PCE increased 0.2 percent.

Consumer Assistance to Recycle and Save Act of 2009

The federal CARS program (popularly called "cash for clunkers"), which began in July 2009 and ended on August 24, 2009, provides a credit of \$3,500 or \$4,500 for customers who purchase a qualifying new, more fuel efficient auto or light truck from a participating dealer when they trade in a qualifying less fuel efficient auto or light truck. The credit is applied by the dealer to the customer's purchase, after which the dealer is reimbursed by the federal government. The impact of this program is reflected in PCE.

For sales to households, the discounted value of the sale is reflected in current-dollar personal consumption expenditures (PCE). The effects of the discount and other price changes are removed in the calculation of real PCE.

The sales of new motor vehicles under the CARS program are reflected in the source data underlying BEA's motor vehicles estimates; specifically, calculations of unit sales of new autos and new light trucks by model from Ward's Automotive Reports and of the average vehicle price (after rebates and concessions) by model for new autos and for new light trucks from J.D. Power and Associates.

The PCE and PFI motor vehicles estimates are deflated by detailed consumer price indexes (CPIs) for new motor vehicles from the Bureau of Labor Statistics (BLS). The detailed CPIs for new vehicles reflect "the average rebate, concession, and/or markup during the preceding 30 days." (See Chapter 17 of the BLS Handbook of Methods (<http://www.bls.gov/opub/hom/pdf/homch17.pdf>), page 29.) Because most of the CARS rebates for July occurred during the last week of the month, the July rebates will be reflected in the CPIs for July and August—that is, the information on rebates enters the indexes with a lag. BEA has made a small adjustment to the July price indexes for new autos and for new light trucks to better align them with the timing of the CARS program rebates/subsidies.

The following is a simplified example of how a transaction under the CARS program will be reflected in PCE: Suppose a household purchases a new auto under the CARS program and pays a negotiated price of \$20,000 less a rebate of \$3,500, for a transaction price of \$16,500. The purchase of the new auto will be included in PCE.

The valuation for current-dollar PCE is the net price paid by the household after the rebate—which is \$16,500, the value of the transaction for current-dollar PCE. (The \$3,500 will be reflected in the GDP statistics as a subsidy, which is like a negative sales tax.)

For the calculation of real PCE, BEA deflates the current-dollar value by the relevant price deflator, which in principle should reflect the decrease in the transaction price. Thus, all else equal, the effects of the CARS program are reflected in increases in quantity and decreases in prices for the motor vehicle component of PCE.

For further information on how the CARS program will be reflected in the GDP statistics, please see the FAQ at BEA's Web site, www.bea.gov, "How will the federal Consumer Assistance to Recycle and Save Act of 2009 (i.e., the CARS program) be reflected in the National Income and Product Accounts (NIPAs)?"

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