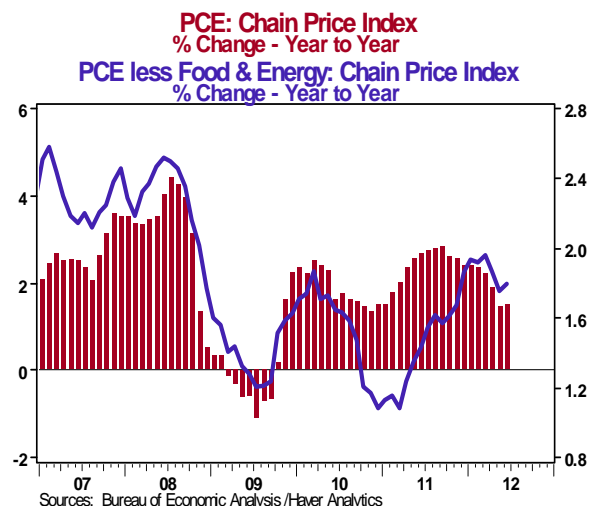
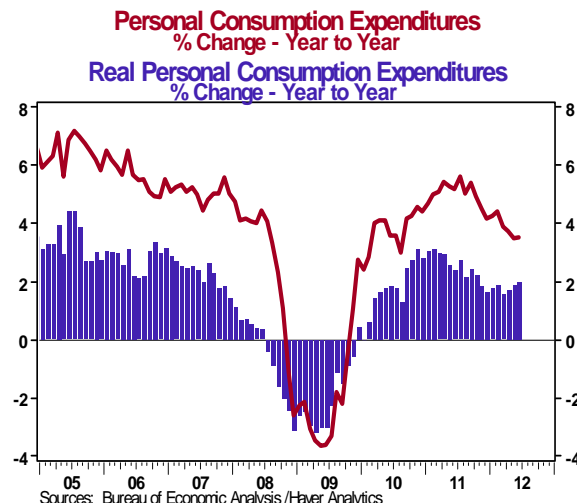


June Personal Income and Consumption

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- Personal income increased 0.5% in June, coming in slightly above the consensus expected 0.4%. Personal consumption was unchanged in June, coming in slightly below the consensus expected gain of 0.1%. In the past year, personal income is up 3.5%, while spending is up 3.6%.
- Disposable personal income (income after taxes) was up 0.4% in June and is up 3.2% from a year ago. The gain in income in May was led by private wages and salaries, which are up 4.2% in the past year. Government transfer payments are up only 2.0%.
- The overall PCE deflator (consumer inflation) was up 0.1% in June and up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in June and is up 1.8% since last year.
- After adjusting for inflation, “real” consumption was down 0.1% in June but is up 2.0% from a year ago.

Implications: Growth in consumer spending has slowed over the past few months, but solid income growth shows the slowdown won't last. Personal consumption was unchanged in June and is up at only a 0.3% annual rate in the past three months, the slowest pace for any three months since late 2009, right after the end of cash-for-clunkers. “Real” (inflation-adjusted) personal consumption fell slightly in June, the first decline in ten months. In the past three months, real spending is up at only a 0.6% annual rate. However, real spending is still up a respectable 2% from a year ago and incomes show room for better gains in the months ahead. Overall, personal income was up 0.5% in June and 3.5% from a year ago. The gains have been led by private-sector wages and salaries, which were up 0.6% in June and 4.2% in the past year. Real income was up 0.4% in June and up at a 4.2% annual rate in the past three months. This growth is not due to artificial government support; excluding government, real income was up at a 4.9% rate in the past three months. In addition, spending will also get a boost from a drop in households' financial obligations – recurring payments like mortgages, rent, car loans/leases, as well as other debt service – which are now the smallest share of income since 1993. On the inflation front, core PCE, which excludes food and energy, is up 1.8% from a year ago, just slightly below the target of 2%. Given healthy incomes and inflation already close to the target, the Federal Reserve has no justification for another round of quantitative easing. In other news this morning, the Case-Shiller index, which measures home prices in the 20 largest metro areas, increased 0.9% (seasonally-adjusted) in May. Prices rose in 18 of the 20 areas and in the past three months, are up in 19 of 20. Although prices nationwide are still down 0.7% from a year ago, they are up at a 10% annual rate in the past three months, the steepest climb since early 2006, just before the peak. For manufacturing, the Chicago PMI, a measure of activity in that region, increased to 53.7 for July from 52.9 in June, beating the consensus expected dip to 52.5. This suggests a slight increase in the nationwide ISM manufacturing report to be released tomorrow morning.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-12	May-12	Apr-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.5%	0.3%	0.2%	3.8%	5.9%	3.5%
Disposable (After-Tax) Income	0.4%	0.3%	0.1%	3.5%	5.6%	3.2%
Personal Consumption Expenditures (PCE)	0.0%	-0.1%	0.2%	0.3%	3.3%	3.6%
Durables	-0.1%	-0.4%	-0.4%	-3.8%	2.8%	6.5%
Nondurable Goods	-0.6%	-0.9%	-0.2%	-6.7%	1.9%	2.8%
Services	0.2%	0.2%	0.5%	3.5%	3.8%	3.4%
PCE Prices	0.1%	-0.2%	0.0%	-0.3%	1.5%	1.5%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.1%	1.8%	2.1%	1.8%
Real PCE	-0.1%	0.1%	0.2%	0.6%	1.8%	2.0%

Source: Bureau of Economic Analysis