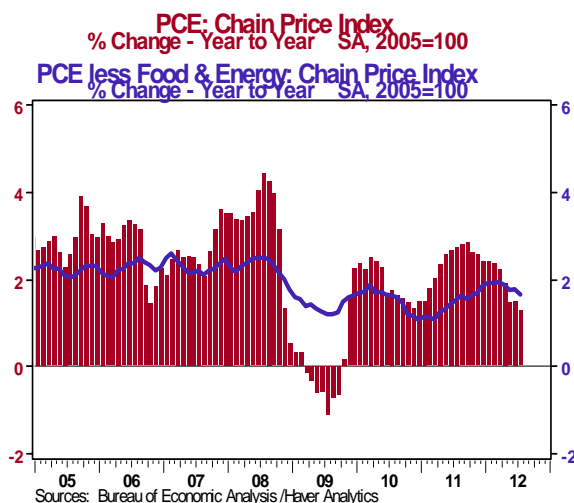
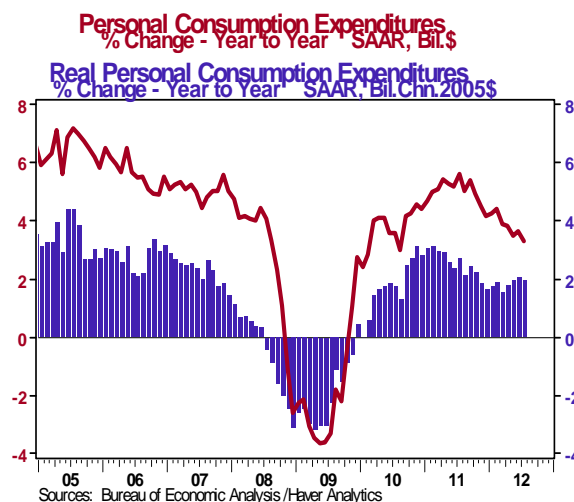


July Personal Income and Consumption

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- Personal income increased 0.3% in July, coming in exactly as the consensus expected. Personal consumption rose 0.4%, slightly below the consensus expected gain of 0.5%. In the past year, personal income is up 3.6%, while spending is up 3.3%.
- Disposable personal income (income after taxes) was up 0.3% in July and is up 3.4% from a year ago. The gain in income in July was led by private wages & salaries, which are up 4.3% in the past year, and government transfer payments, which are up 2.6% from a year ago.
- The overall PCE deflator (consumer inflation) was unchanged in July but up 1.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, was also unchanged in July but up 1.6% since last year.
- After adjusting for inflation, “real” consumption was up 0.4% in July (0.5% including upward revisions for prior months) and is up 2.0% from a year ago.

Implications: More economic reports, more plow horse. After a decline in May and very slow growth in June, consumer spending rebounded in July, growing a healthy 0.4%, with consumers picking up more big-ticket durable goods. “Real” (inflation-adjusted) personal consumption was also up 0.4% in July and is 2% higher than a year ago. Solid income growth suggests continued gains for consumer spending. Disposable (after-tax) income was up 0.3% in July and is up 3.4% from a year ago. Although government transfers helped boost income growth in July, they have only grown 2.6% in the past year. By contrast, private sector wages & salaries have grown 4.3% in the past year. In other words, income gains in the past year have not been temporarily and artificially supported by the government. 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, both overall consumption prices and the core PCE, which excludes food and energy, were unchanged in July. Overall prices are up 1.3% in the past year while core prices are up 1.6%. However, we anticipate a sharp rebound in inflation in August. In other news this morning, new claims for unemployment insurance were unchanged last week at 374,000. Continuing claims were down 5,000 to 3.32 million. These figures are consistent with respectable payroll gains of 120,000 in August. In other recent news, pending home sales, which are contracts on existing homes, increased 2.4% in July after declining 1.4% in June. Combined, these reports suggest a slight uptick in existing home sales in August.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Jul-12 | Jun-12 | May-12 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|-------------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.3% | 0.3% | 0.3% | 3.8% | 4.6% | 3.6% |
| <i>Disposable (After-Tax) Income</i> | 0.3% | 0.3% | 0.3% | 3.7% | 4.4% | 3.4% |
| Personal Consumption Expenditures (PCE) | 0.4% | 0.0% | -0.2% | 1.0% | 3.2% | 3.3% |
| <i>Durables</i> | 0.8% | 0.2% | -0.2% | 3.3% | 2.3% | 6.1% |
| <i>Nondurable Goods</i> | 0.6% | -0.6% | -1.3% | -4.8% | 1.0% | 2.1% |
| <i>Services</i> | 0.3% | 0.2% | 0.2% | 2.7% | 4.1% | 3.3% |
| PCE Prices | 0.0% | 0.1% | -0.2% | -0.3% | 1.0% | 1.3% |
| <i>"Core" PCE Prices (Ex Food and Energy)</i> | 0.0% | 0.2% | 0.1% | 1.4% | 1.6% | 1.6% |
| Real PCE | 0.4% | -0.1% | 0.0% | 1.3% | 2.2% | 2.0% |

Source: Bureau of Economic Analysis