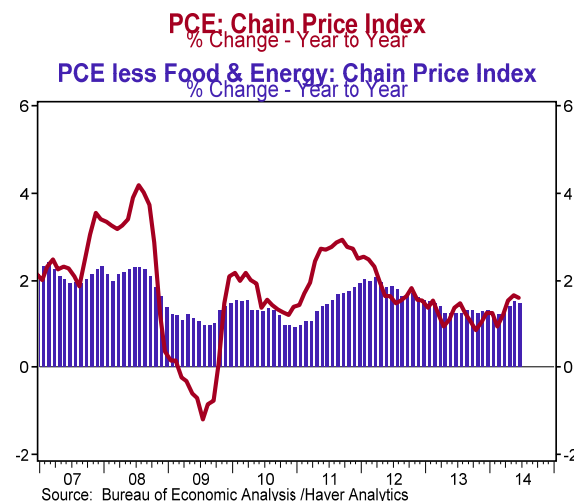
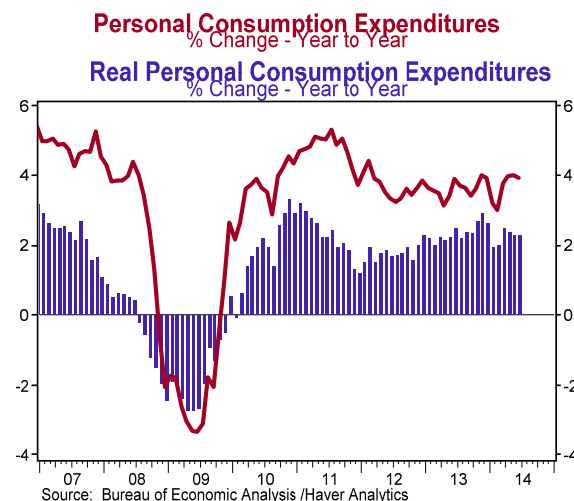


## June Personal Income and Consumption

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- Personal income and personal consumption both increased 0.4% in June, matching consensus expectations. Personal income is up 3.9% in the past year, while spending is up 4.0%.
- Disposable personal income (income after taxes) increased 0.4% in June and is up 3.9% from a year ago. The gain in June was led by private sector wages & salaries.
- The overall PCE deflator (consumer prices) increased 0.2% in June and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in June and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in June and is up 2.3% from a year ago.

**Implications:** A solid report on consumer spending today as consumption increased by 0.4%, the best growth in three months. Don’t let anyone tell you this is all unsustainable or workers aren’t earning enough to keep increasing spending. Private-sector wages & salaries increased 0.5% in June and are up 5.8% from a year ago. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.4% in June and is up 3.9% from a year ago. Yes, government transfer payments – like Medicare, Medicaid, Social Security, disability, unemployment compensation – are still an unusually large share of income. These transfers were roughly 14% of income before the recession and peaked at 18% right after the recession. But for the past few years, they’ve been hovering just below 17% of income. We’d like to see this share decline to where it was before the recession (or go even lower!), but these payments have not been the driver behind income gains the past few years. We expect both income and spending to accelerate in the year ahead. Job growth continues and, as unemployment gradually declines, employers will offer higher wages. In addition, consumers’ financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve’s favorite measure of inflation, the personal consumption price index, was up 0.2% in June. While these prices are still up only 1.6% in the past year, which is below the Fed’s 2% target, they’re up at a 2% annual rate in the past six months and a 2.8% annual rate in the past three months. We believe that, given loose monetary policy, the Fed is going to be struggling sooner than it thinks to keep inflation down at 2%. As recently as October 2013, PCE prices were up only 0.8% from a year ago, and we expect to hit the 2% target later this year. In other news yesterday, new claims for unemployment insurance increased 23,000 to 302,000. Continuing claims for jobless benefits increased 31,000 to 2.54 million. Plugging these figures into our models generates a very early estimate of nonfarm payroll gains of 220,000 in August, very close to what we got for July.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-14	May-14	Apr-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.4%</b>	0.4%	0.3%	4.6%	6.1%	3.9%
<b>Disposable (After-Tax) Income</b>	<b>0.4%</b>	0.4%	0.4%	5.1%	6.4%	3.9%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.4%</b>	0.3%	0.1%	3.7%	4.0%	4.0%
<b>Durables</b>	<b>0.5%</b>	1.2%	-0.5%	4.6%	10.1%	4.4%
<b>Nondurable Goods</b>	<b>1.0%</b>	0.2%	0.7%	8.1%	3.6%	3.7%
<b>Services</b>	<b>0.2%</b>	0.2%	0.1%	2.2%	3.1%	3.9%
<b>PCE Prices</b>	<b>0.2%</b>	0.3%	0.2%	2.8%	2.0%	1.6%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.2%	0.2%	2.1%	1.7%	1.5%
<b>Real PCE</b>	<b>0.2%</b>	0.1%	-0.1%	0.9%	1.9%	2.3%

Source: Bureau of Economic Analysis