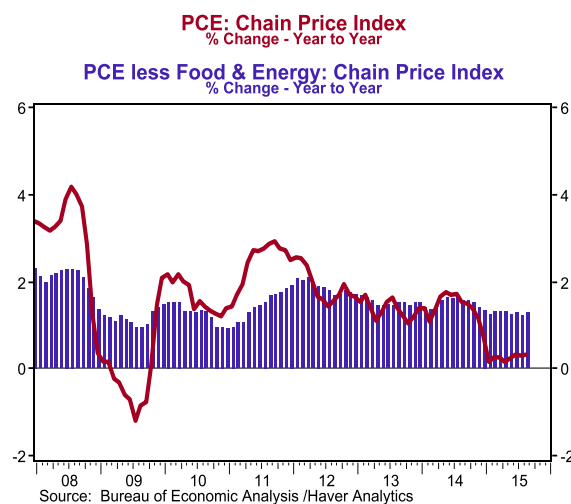
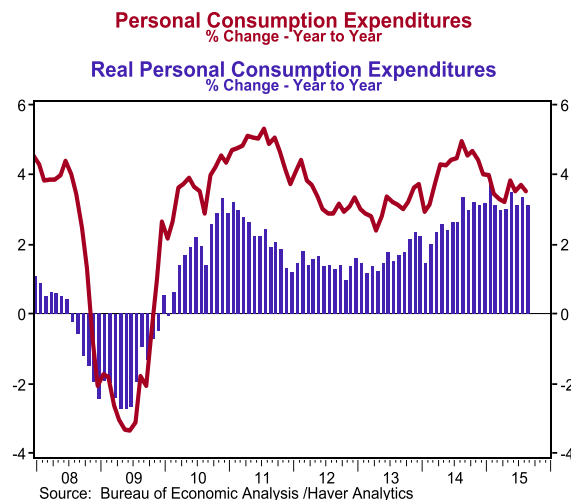


August Personal Income and Consumption

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- Personal income increased 0.3% in August and rose 0.4% including revisions to prior months. The consensus expected a gain of 0.4%. Personal consumption increased 0.4% in August (0.7% including revisions to prior months), beating consensus expectations of 0.3%. Personal income is up 4.2% in the past year, while spending is up 3.5%.
- Disposable personal income (income after taxes) increased 0.4% in August, and is up 3.6% from a year ago. The gain in August was led by private sector wages & salaries. Most other categories saw small gains in August.
- The overall PCE deflator (consumer prices) was unchanged in August and is up 0.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in August and is up 1.3% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in August (0.7% including revisions to prior months) and is up 3.2% from a year ago.

Implications: Incomes and spending continued to move higher in August, led again by strong growth in wages & salaries. Payrolls are up almost three million from a year ago, helping push private-sector wages & salaries up a robust 4.1% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.3% in August and is up 4.2% in the past year, faster than the 3.5% gain in consumer spending. In other words, recent gains in consumer spending have been driven by higher incomes, not consumers getting into potential financial trouble with too much debt. The only real negative news in today’s report was the failure to make any progress against government redistribution. Although unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons are up 4.5% in the past year, largely driven by Obamacare. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they’re around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy. The PCE deflator, the Fed’s favorite measure of inflation, was unchanged in August. Although it’s only up 0.3% from a year ago, it continues to be held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.3% from a year ago. That’s still below the Fed’s 2% inflation target, but it’s up a faster 1.6% annualized rate in the past six months. As soon as energy prices stop falling, inflation is going to pick up, supporting the case for starting rate hikes before year-end. In other news today, pending home sales, which are contracts on existing homes, declined 1.4% in August after rising in July. Our models project that existing home sales, which are counted at closing, should rise slightly in September.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-15	Jul-15	Jun-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.5%	0.4%	4.9%	4.1%	4.2%
Disposable (After-Tax) Income	0.4%	0.5%	0.4%	5.0%	4.0%	3.6%
Personal Consumption Expenditures (PCE)	0.4%	0.4%	0.3%	4.6%	5.8%	3.5%
Durables	0.9%	1.1%	-1.2%	2.8%	8.6%	3.2%
Nondurable Goods	0.2%	0.6%	0.6%	5.5%	8.8%	0.1%
Services	0.5%	0.2%	0.5%	4.6%	4.5%	4.7%
PCE Prices	0.0%	0.1%	0.2%	1.3%	1.8%	0.3%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.3%	1.6%	1.3%
Real PCE	0.4%	0.3%	0.1%	3.3%	3.9%	3.2%

Source: Bureau of Economic Analysis