

JUNE PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.6% in June, after a 0.4% gain in May. Personal income is up 6.5% in the past year. Wages and salaries also increased 0.6% last month, and are 6.9% higher than a year ago.
- Personal consumption increased 0.4% last month after a 0.6% gain in May. Consumption is up 6.2% in the 12 months.
- The PCE deflator increased 0.2% last month and is up 3.5% in the past year. The “core” PCE deflator also rose 0.2% in June and is up 2.4% in the past year – the fastest YOY change in over 11 years.

Implications: Strong gains in wages, salaries, interest income, and dividends pushed personal income up 0.6% in May. Personal Income increased 6.4% at an annual rate in the second quarter. This is well above the 5.8% annualized gain in Q2 nominal GDP. Personal income is a good proxy for nominal GDP and as such, we expect Q2 GDP to be revised higher in the months ahead. Keeping on the topic of revisions, the Bureau of Economic Analysis (BEA) released their annual benchmark revisions to Personal Income data for 2003-2005. The net revisions added \$71.2 billion to personal income and \$29.0 billion to wages and salaries. This follows last year’s 2004-2004 revision which added \$87.7 billion to personal income and \$91.8 billion to wages and salaries. These are significant revisions and suggest that our economic statistics are systematically underestimating the strength of the new economy. Despite all the pessimistic warnings about a tapped out consumer, today’s data show that wages are rising faster than consumption and inflation. The strength in wages should offset higher interest rates and elevated energy prices to keep consumer spending strong through the rest of the year.



Personal Income & Consumption <i>All data seasonally adjusted</i>	Jun-06	May-06	Apr-06	3-mo % ch. annualized	6-mo % ch. annualized	Yr over yr % ch.
Personal Income, current	0.6%	0.4%	0.7%	7.1%	6.7%	6.5%
less Personal Tax and Nontax Payments	1.0%	0.5%	1.9%	14.5%	20.4%	15.4%
equals Disposal Income	0.6%	0.4%	0.6%	6.1%	4.9%	5.3%
Wages and Salaries	0.6%	0.0%	0.9%	6.4%	7.0%	6.9%
Personal Consumption Expenditures (PCE)	0.4%	0.6%	0.6%	6.5%	7.1%	6.2%
Durables	0.3%	-0.7%	-0.2%	-2.4%	4.2%	0.2%
Nondurable Goods	0.4%	0.9%	1.5%	11.4%	11.3%	9.0%
Services	0.4%	0.6%	0.4%	6.0%	5.7%	6.1%
PCE Deflator	0.2%	0.4%	0.5%	4.1%	3.9%	3.5%
Savings Rate	-1.5%	-1.6%	-1.4%	-1.5%	-1.3%	-0.5%

Source: Bureau of Economic Analysis

*The 3 and 6 month changes in the Savings Rate are averages, the year-over-year percentage is the year-ago level

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