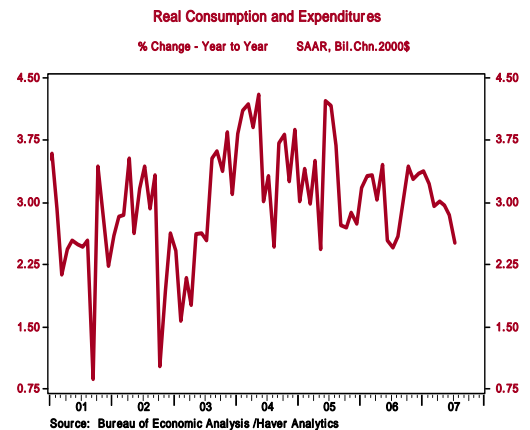


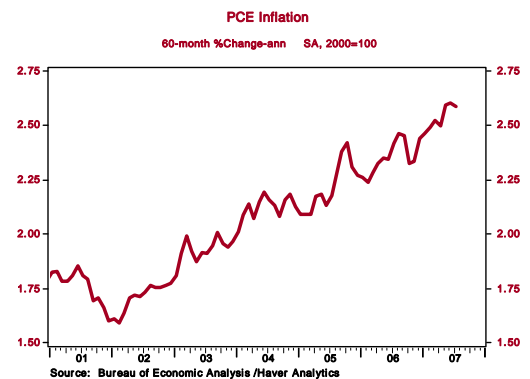
JULY PERSONAL INCOME AND CONSUMPTION

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- Personal income increased 0.5% in July while personal consumption increased 0.4%. The consensus expected gain for each was 0.3%.
- Disposable personal income (income after taxes) increased 0.6% in July and was up 6.0% versus a year ago.
- The overall PCE deflator (consumer price inflation) rose 0.1% in July and was up 2.1% versus last year. The “core” PCE deflator, which excludes food and energy, rose 0.1% in July and was up 1.9% versus last year.
- After adjusting for inflation, real consumption was up 0.3% in July. Real consumption is up 2.5% versus July 2006.



Implications: Solid data today on July personal income and spending. Income was up 0.5%, the most in four months, and was up 6.6% versus a year ago, signaling that consumers have the ability to boost spending. Real (inflation-adjusted) spending was up 0.3% in July. Data available so far suggests real consumption will grow at about a 2.5% annual rate in Q3, an acceleration from the 1.4% rate in Q2. Despite today’s seemingly benign 0.1% increases in both the overall and “core” PCE price indexes for July, our primary concern remains inflation. Although the overall PCE price index dipped down to a 2.1% increase versus a year ago, this is mostly due to high inflation readings in the middle of last year, making the year-to-year change in prices look artificially low. Even if overall PCE prices grow at only a 2% annual rate in the next four months, the year-to-year change in prices goes from 2.1% in July to 3% by November. In addition, as the chart to the right shows, overall PCE prices are up at a 2.6% annual rate the past five years, a clear upward trend. In our view, inflation is still too much of a concern for the Federal Reserve to cut the federal funds rate.



Personal Income & Spending <i>All Data Seasonally Adjusted</i>	Jul-07	Jun-07	May-07	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	0.5%	0.4%	0.4%	5.5%	6.0%	6.6%
Disposal (After-Tax) Income	0.6%	0.4%	0.4%	5.4%	5.8%	6.0%
Personal Consumption Expenditures (PCE)	0.4%	0.2%	0.6%	4.5%	5.2%	4.7%
Durables	0.3%	-1.7%	1.7%	1.2%	-0.6%	0.8%
Nondurable Goods	0.5%	0.0%	1.6%	8.4%	8.2%	3.9%
Services	0.4%	0.6%	-0.1%	3.3%	4.9%	5.8%
PCE Prices	0.1%	0.2%	0.5%	2.9%	3.5%	2.1%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.1%	1.6%	1.5%	1.9%
Real PCE	0.3%	0.0%	0.1%	1.6%	1.6%	2.5%

Source: Bureau of Economic Analysis

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