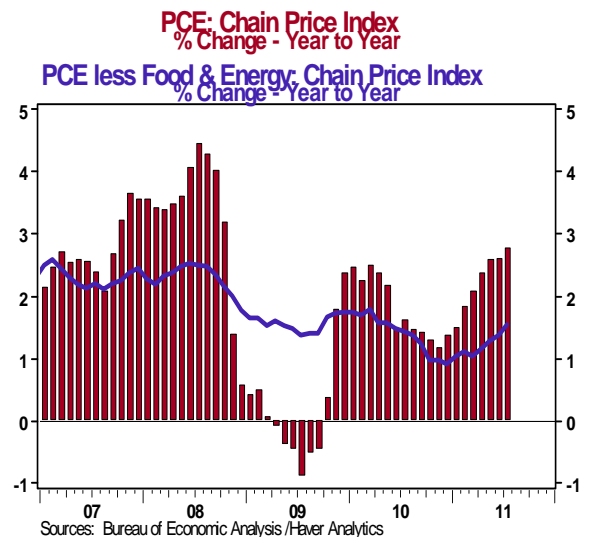
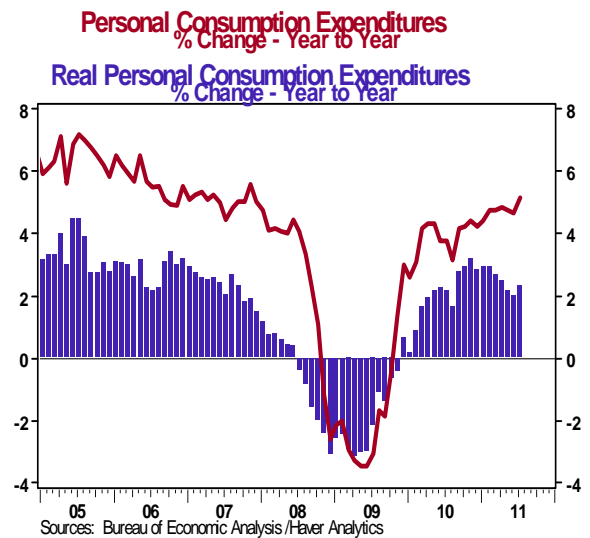


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July Personal Income and Consumption

- Personal income increased 0.3% in July, matching consensus expectations. Personal consumption rose 0.8%, easily beating the consensus expected gain of 0.5%. In the past year, personal income is up 5.3% while spending is up 5.1%.
- Disposable personal income (income after taxes) was up 0.3% in July and is up 4.0% versus a year ago. The gain in July was led by private-sector wages and salaries as well as dividends.
- The overall PCE deflator (consumer inflation) increased 0.4% in July and is up 2.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in July and is up 1.6% since last year.
- After adjusting for inflation, “real” consumption was up 0.5% in July and is up 2.3% versus a year ago.

Implications: Income and spending were doing well in July, before recent financial volatility, and revisions to prior months show more momentum for the economy. Personal income grew 0.3% in July, as the consensus expected, but a stronger 0.7% including upward revisions to prior months. Spending was up 0.8% in July, beating consensus expectations, and grew 1% including upward revisions to prior months. Spending on durable goods, such as autos, increased 1.9%, showing that supply-chain disruptions from Japan are abating. Overall consumption prices rose 0.4% in July and are up 2.8% in the past year. Meanwhile, “core” consumption prices, which exclude food and energy, continue to accelerate, up a tame 1.6% in the past year, but up at a 2.2% annual rate in the past six months and a 2.5% rate in the past three months. Higher core inflation makes it difficult for the Federal Reserve to justify doing any additional quantitative easing. In our view, it makes it tough to justify committing to short-term interest rates near zero for the next two years. The Fed must be confused about how core inflation could be rising when the unemployment rate is above 9% and capacity utilization in the industrial sector is below 80%. In their worldview, core inflation should only be rising when resources are constrained, and we’re not even close to that environment in their thinking. In other news this morning, pending home sales, which are contracts on existing homes, declined 1.3% in July. However, given the 2.4% increase in June we still expect an increase in existing home sales (which are counted at closing) in August.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-11	Jun-11	May-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.2%	0.3%	3.3%	4.5%	5.3%
Disposal (After-Tax) Income	0.3%	0.2%	0.2%	2.8%	4.1%	4.0%
Personal Consumption Expenditures (PCE)	0.8%	-0.1%	0.1%	3.4%	4.9%	5.1%
Durables	1.9%	-1.1%	-1.2%	-1.6%	2.3%	6.7%
Nondurable Goods	0.7%	-0.5%	-0.3%	-0.3%	6.9%	9.6%
Services	0.7%	0.1%	0.5%	5.5%	4.6%	3.4%
PCE Prices	0.4%	-0.1%	0.2%	1.7%	3.1%	2.8%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	0.3%	2.5%	2.2%	1.6%
Real PCE	0.5%	0.0%	0.0%	1.7%	1.7%	2.3%

Source: Bureau of Economic Analysis