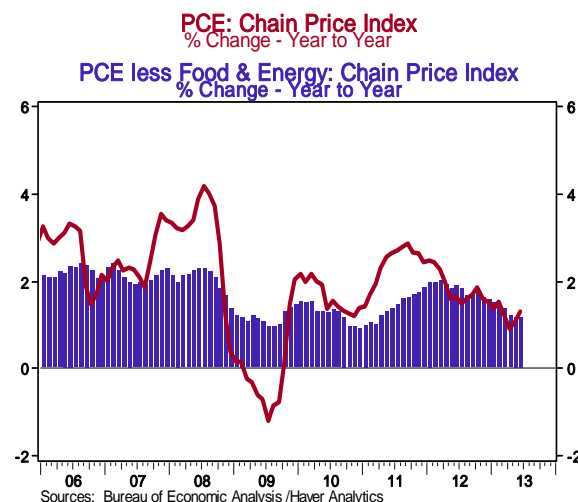
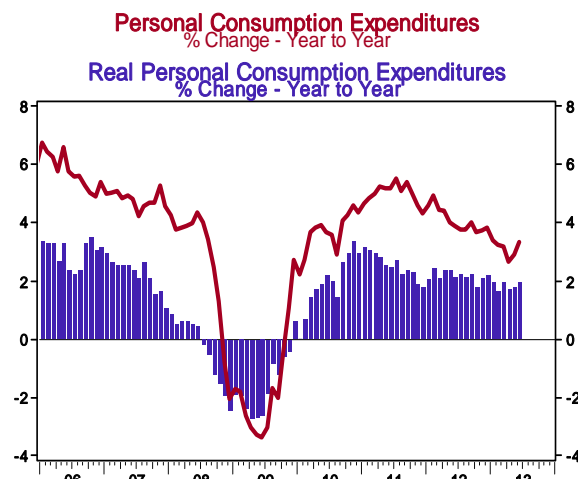


June Personal Income and Consumption

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- Personal income increased 0.3% in June, coming in slightly below the consensus expected gain of 0.4%. Personal consumption rose 0.5%, exactly as the consensus expected. In the past year, personal income is up 3.1% while spending is up 3.3%.
- Disposable personal income (income after taxes) increased 0.3% in June and is up 1.9% from a year ago. The gain in income was primarily driven by private wages & salaries and interest/dividends.
- The overall PCE deflator (consumer prices) rose 0.4% in June and is up 1.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in June and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in June and is up 2.0% from a year ago. Real spending was up at a 1.8% annual rate in Q2 versus the Q1 average.

Implications: Another month, another Plow Horse report on income and spending. Income grew 0.3% in June and is up 3.1% from a year ago. Adjusting for inflation, real income is up 1.8% from a year ago. These gains are *not* being artificially supported by government transfers; excluding transfers – such as Medicare, Medicaid, Social Security, and unemployment insurance – real personal income is still up 1.7% from a year ago. Despite what some pundits are saying, there is still no evidence that the end of the payroll tax cut or federal spending sequester is hurting consumers. Real consumer spending is up 2% from a year ago; at the same time last year, real spending was up 2.2% over the prior year, not much difference. We expect further gains in both income and spending over the remainder of the year. Job growth will continue and, as the jobless rate gradually declines, employers will be offering higher wages. Meanwhile, 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, personal consumption prices, was up 0.4% in June, while core consumption prices were up 0.2%. Overall consumption prices are up only 1.3% in the past year while core prices, which exclude food and energy, are up only 1.2%. Both are below the Fed’s 2% target. However, we think these price measures will be noticeably higher by year end. In other news yesterday, cars and light trucks were sold at a 15.7 million annual rate in July, down 1.8% from June but up 11.2% from a year ago. At present, we’re forecasting that real consumer spending will grow at a moderate 2% - 2.5% annual rate in the third quarter.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-13	May-13	Apr-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.4%	0.0%	2.8%	-4.4%	3.1%
Disposable (After-Tax) Income	0.3%	0.3%	-0.1%	2.0%	-6.2%	1.9%
Personal Consumption Expenditures (PCE)	0.5%	0.2%	-0.2%	2.0%	3.1%	3.3%
Durables	0.9%	0.6%	0.4%	7.6%	3.9%	6.4%
Nondurable Goods	1.3%	0.5%	-1.4%	1.2%	2.8%	3.3%
Services	0.2%	0.0%	0.1%	1.4%	3.1%	2.9%
PCE Prices	0.4%	0.1%	-0.3%	1.0%	1.2%	1.3%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.0%	1.3%	1.3%	1.2%
Real PCE	0.1%	0.1%	0.1%	1.1%	1.9%	2.0%

Source: Bureau of Economic Analysis