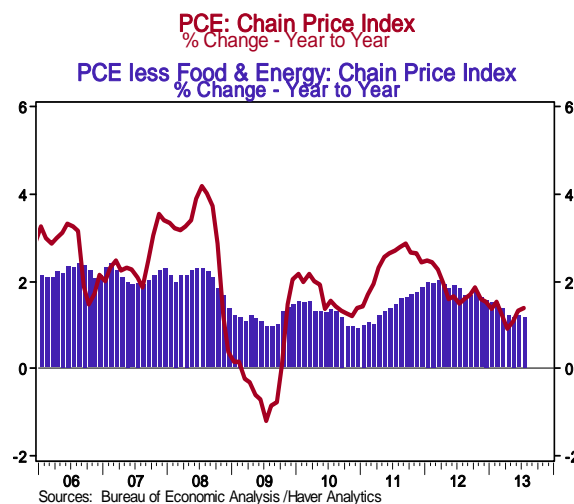
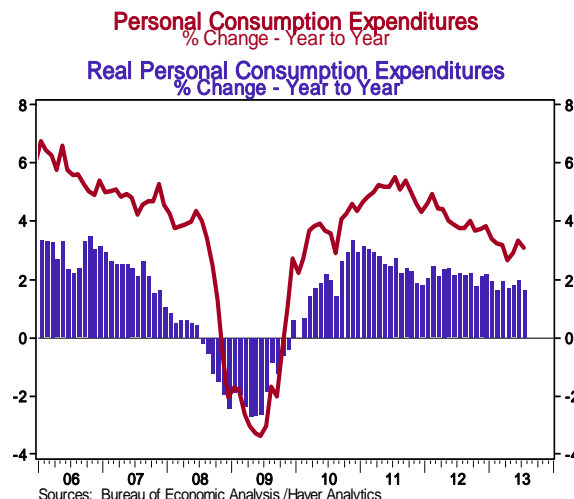


## July Personal Income and Consumption

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- Personal income increased 0.1% in July, coming in slightly below the consensus expected gain of 0.2%. Personal consumption rose 0.1%, coming in below the consensus expected 0.3%. In the past year, personal income is up 3.3% while spending is up 3.1%.
- Disposable personal income (income after taxes) increased 0.2% in July and is up 2.2% from a year ago. The gain in income in July was driven by dividends, rents, and farm income, which offset a decline in wages & salaries.
- The overall PCE deflator (consumer prices) rose 0.1% in July and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was also up 0.1% in July and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in July but is up 1.7% from a year ago

**Implications:** Another month, another Plow Horse report on income and spending. Income grew a tepid 0.1% in July, with dividends, rents, and farm income offsetting a drop in wages & salaries. At this point we don’t read much into a one-month drop in wages & salaries. We notice the same thing happened last July, so it could be difficulties making seasonal adjustments. Or it could just be normal statistical noise that might later be revised away. However, we will be following the data closely to see if any weakness becomes persistent, which might be attributable to the roll-out of Obamacare. In the meantime, overall personal income is up 3.3% from a year ago while wages & salaries are up 3.4% and private-sector wages & salaries are up 4.2%. Adjusting for inflation, real income is up 1.9% from a year ago, private wages & salaries are up 2.8%. 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 1.7% from a year ago; at the same time last year, real spending was up 2.3% over the prior year, so not too 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, the personal consumption price index, was up 0.1% in July. Core consumption prices were also up 0.1%. Overall consumption prices are up only 1.4% 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 move higher over the next year. In other news this morning, the Chicago PMI, which measures manufacturing in that region, increased to 53.0 in August from 52.3 in July, exactly as the consensus expected.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-13	Jun-13	May-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.1%	0.3%	0.3%	2.8%	4.7%	3.3%
<b>Disposable (After-Tax) Income</b>	0.2%	0.2%	0.3%	2.7%	4.5%	2.2%
<b>Personal Consumption Expenditures (PCE)</b>	0.1%	0.6%	0.2%	3.6%	3.1%	3.1%
<b>Durables</b>	-0.2%	0.9%	0.4%	4.5%	3.3%	5.7%
<b>Nondurable Goods</b>	0.9%	1.2%	0.4%	10.5%	4.4%	3.5%
<b>Services</b>	0.0%	0.3%	0.1%	1.2%	2.6%	2.5%
<b>PCE Prices</b>	0.1%	0.4%	0.1%	2.4%	1.3%	1.4%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.1%	0.2%	0.1%	1.7%	1.1%	1.2%
<b>Real PCE</b>	0.0%	0.2%	0.1%	1.1%	1.8%	1.7%

Source: Bureau of Economic Analysis