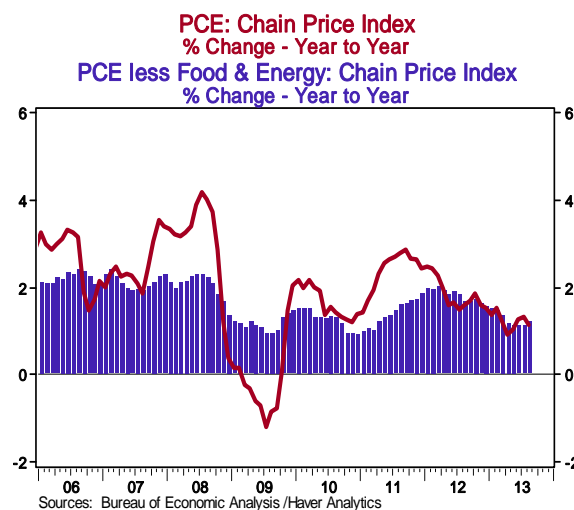
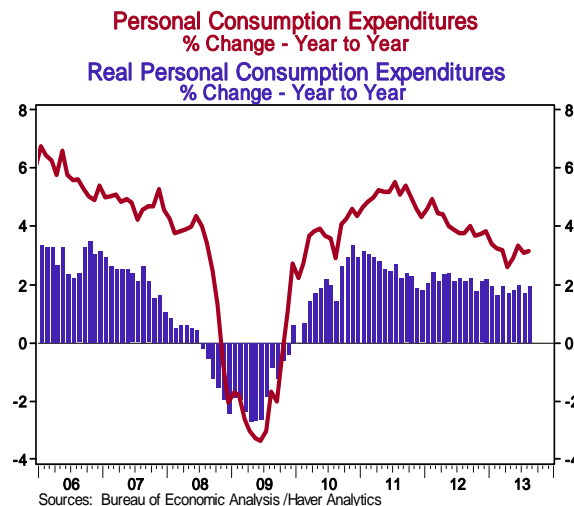


August Personal Income and Consumption

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- Personal income increased 0.4% in August, matching consensus expectations. Personal consumption rose 0.3%, also matching the consensus. In the past year, personal income is up 3.7% while spending is up 3.2%.
- Disposable personal income (income after taxes) increased 0.5% in August and is up 2.8% from a year ago. The gain in income in August was driven by wages & salaries, small business income, and government transfer payments.
- The overall PCE deflator (consumer prices) rose 0.1% in August and is up 1.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.2% in August and is also up 1.2% in the past year.
- After adjusting for inflation, “real” consumption was up 0.2% in August and is up 2.0% from a year ago.

Implications: Another month, another Plow Horse report on income and spending. Income grew 0.4% in August, as wages & salaries saw a strong rebound from last month. Overall personal income is up 3.7% from a year ago while private-sector wages & salaries are up 4.4%. Adjusting for inflation, real income is up 2.5% 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. It remains to be seen whether supposed concerns about a government shutdown will affect consumer spending, but we doubt it will. Real consumer spending is up 2.0% from a year ago; at the same time last year, real spending was up 2.2% 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 August. Core consumption prices were up 0.2%. Overall consumption prices and core prices, which exclude food and energy, are up only 1.2% in the past year. Both are well below the Fed’s 2% target. However, we think these price measures will move higher over the next year.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-13	Jul-13	Jun-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.2%	0.3%	3.5%	3.2%	3.7%
Disposable (After-Tax) Income	0.5%	0.3%	0.3%	4.0%	3.0%	2.8%
Personal Consumption Expenditures (PCE)	0.3%	0.2%	0.6%	4.1%	2.3%	3.2%
Durables	0.5%	0.0%	1.0%	6.4%	4.6%	5.9%
Nondurable Goods	0.0%	0.9%	1.1%	7.9%	0.7%	2.3%
Services	0.4%	-0.1%	0.3%	2.5%	2.5%	3.0%
PCE Prices	0.1%	0.1%	0.4%	2.5%	0.6%	1.2%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.2%	1.7%	1.1%	1.2%
Real PCE	0.2%	0.1%	0.2%	1.6%	1.7%	2.0%

Source: Bureau of Economic Analysis