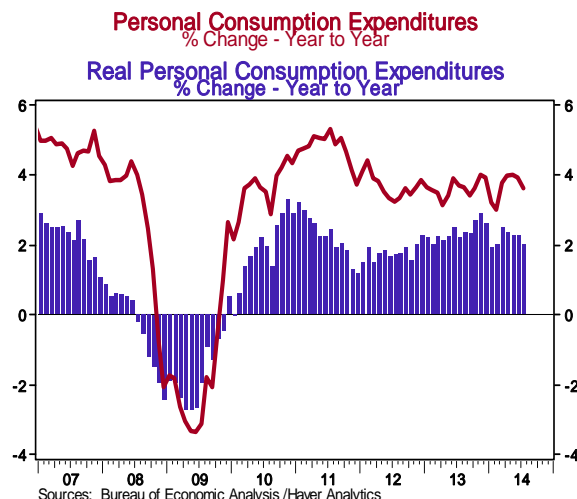


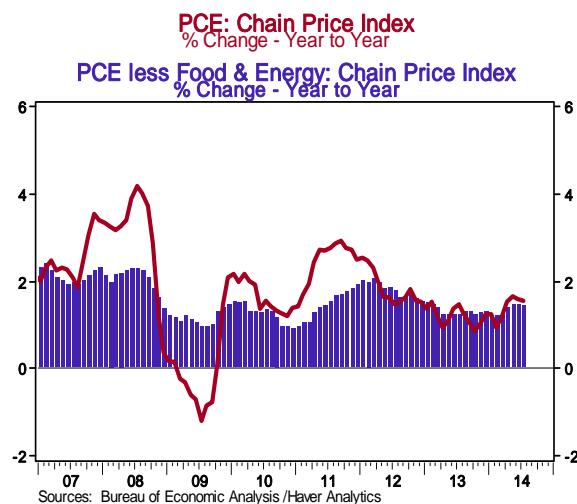
July Personal Income and Consumption

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- Personal income increased 0.2% in July (0.3% including revisions to prior months). The consensus expected a 0.3% gain. Personal consumption declined 0.1% in July, falling short of the consensus expected gain of 0.2%. Personal income is up 4.3% in the past year, while spending is up 3.6%.
- Disposable personal income (income after taxes) increased 0.1% in July and is up 4.2% from a year ago. The gain in July was led by wages & salaries in the private service sector and Medicaid, which offset a large decline in farm income.
- The overall PCE deflator (consumer prices) increased 0.1% in July and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in July and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption declined 0.2% in July but is still up 2.0% from a year ago.



Implications: A Plow Horse report on personal income and spending in July. Income was up 0.2%, slightly less than the consensus expected. But income increased 0.3% including upward revisions for prior months and is up at a 4.5% annual rate in the past three months, slightly faster than the 4.3% gain in the past year. In other words, we don't see a problem with consumer income, which has grown every month so far this year. Nor do we see a problem with consumer spending, despite the 0.1% decline in July. Consumer spending is still up 3.6% from a year ago, which is in the same 3% to 4% range it's been in since early 2012. Some analysts will harp on recent gains in government transfer payments. Medicaid, for example, has been expanding quickly this year due to Obamacare and is up 9.9% from a year ago. Overall government transfer payments – like Medicare, Medicaid, Social Security, disability, unemployment compensation – are still an unusually large share of income. These transfers were roughly 14% of income before the recession and peaked at 18% right after the recession. But for the past few years, they've been hovering just below 17% of income. We'd like to see the share decline to where it was before the recession (or go lower!), but these payments have not been the driver behind income gains the past few years. Private-sector wages & salaries are up 6% from a year ago, which is faster than the 4.6% gain in government transfers. We expect both income and spending to accelerate in the year ahead. Job growth continues and, as unemployment gradually declines, employers will offer higher wages. In addition, 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 personal consumption price index, rose 0.1% in July. While these prices are still up only 1.6% in the past year, which is below the Fed's 2% target, they're up at a 2% annual rate in the past six months and a 2.2% annual rate in the past three months. We believe that, given loose monetary policy, the Fed is going to be struggling sooner than it thinks to keep inflation down at 2%.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-14	Jun-14	May-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.5%	0.5%	4.5%	5.6%	4.3%
Disposable (After-Tax) Income	0.1%	0.5%	0.5%	4.6%	5.8%	4.2%
Personal Consumption Expenditures (PCE)	-0.1%	0.4%	0.3%	2.6%	4.1%	3.6%
Durables	-0.7%	0.5%	0.9%	2.9%	10.1%	3.8%
Nondurable Goods	-0.1%	1.0%	0.0%	3.7%	5.1%	2.6%
Services	0.0%	0.2%	0.3%	2.1%	2.9%	3.9%
PCE Prices	0.1%	0.2%	0.2%	2.2%	2.0%	1.6%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.2%	1.7%	1.7%	1.5%
Real PCE	-0.2%	0.2%	0.1%	0.4%	2.1%	2.0%

Source: Bureau of Economic Analysis

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