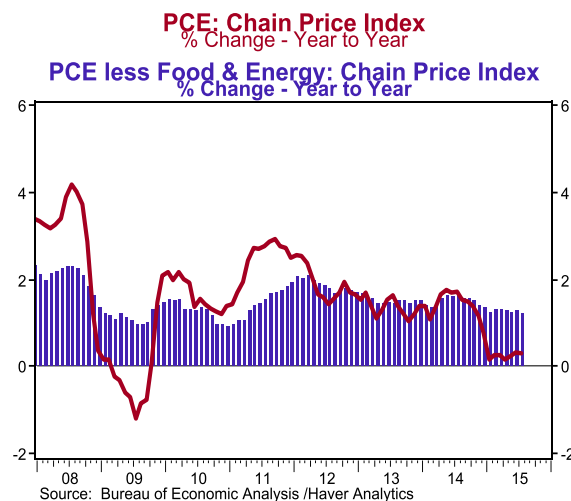
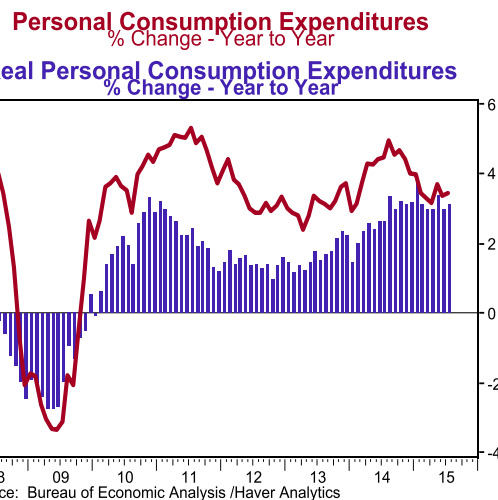


July Personal Income and Consumption

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- Personal income increased 0.4% in July, matching consensus expectations. Personal consumption was up 0.3% in July (0.4% including revisions to prior months), compared to consensus expectations of 0.4%. Personal income is up 4.3% in the past year, while spending is up 3.5%.
- Disposable personal income (income after taxes) increased 0.5% in July, and is up 3.6% from a year ago. The gain in July was led by private sector wages & salaries, non-farm small businesses, and Medicaid.
- The overall PCE deflator (consumer prices) increased 0.1% in July and is up 0.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in July and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in July (0.3% including revisions to prior months) and is up 3.2% from a year ago.

Implications: Incomes and spending continued to move higher in July, led by the fastest growth in wages & salaries so far this year. Payrolls are up almost three million from a year ago, helping push private-sector wages & salaries up a robust 4.6% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.4% in July and is up 4.3% in the past year, faster than the 3.5% gain in consumer spending. In other words, consumers have enough income growth to keep lifting their spending without getting into financial trouble. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5.1%, largely driven by Obamacare. However, outside Medicaid, government transfers are up a slower 4.2% in the past year and unemployment compensation is hovering around the lowest levels since 2007. The bad news is that overall government transfer payments – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – aren’t falling back to where they were before the Panic of 2008, when they were roughly 14% of income. In early 2010, they peaked at 18%. Now they’re down to around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy. The PCE deflator, the Fed’s favorite measure of inflation, increased 0.1% in July. Although it’s only up 0.3% from a year ago, it continues to be held down by falling energy prices. Nevertheless, in the past three months, the PCE deflator is up at a 2.5% annual rate. The “core” PCE deflator, which excludes food and energy, is up 1.2% from a year ago. That’s still below the Fed’s 2% inflation target, but it’s up a faster 1.7% annualized rate in the past six months. As soon as energy prices stop falling, inflation is going to pick up, supporting the case for starting rate hikes in September.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Jul-15 | Jun-15 | May-15 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.4% | 0.4% | 0.4% | 5.1% | 4.0% | 4.3% |
| Disposable (After-Tax) Income | 0.5% | 0.4% | 0.4% | 5.1% | 3.9% | 3.6% |
| Personal Consumption Expenditures (PCE) | 0.3% | 0.3% | 0.8% | 5.6% | 4.8% | 3.5% |
| Durables | 1.1% | -1.1% | 1.3% | 5.3% | 6.3% | 4.0% |
| Nondurable Goods | 0.2% | 0.5% | 2.1% | 11.9% | 7.7% | -0.2% |
| Services | 0.2% | 0.4% | 0.3% | 3.8% | 3.7% | 4.6% |
| PCE Prices | 0.1% | 0.2% | 0.3% | 2.5% | 2.2% | 0.3% |
| "Core" PCE Prices (Ex Food and Energy) | 0.1% | 0.1% | 0.1% | 1.4% | 1.7% | 1.2% |
| Real PCE | 0.2% | 0.0% | 0.5% | 3.1% | 2.6% | 3.2% |

Source: Bureau of Economic Analysis