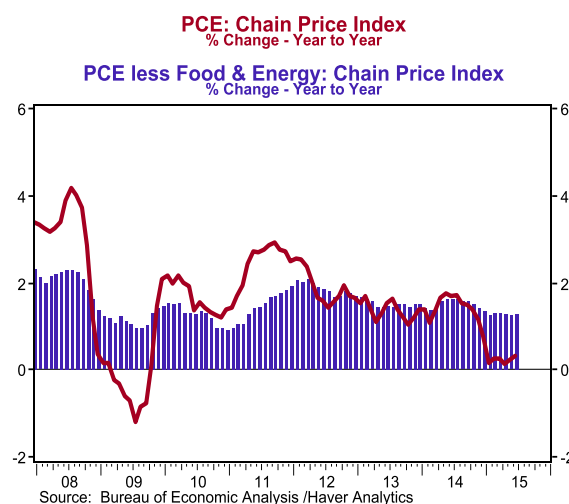
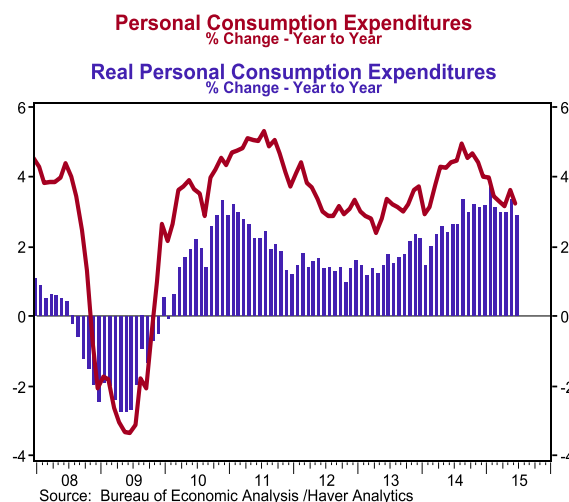


June Personal Income and Consumption

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- Personal income increased 0.4% in June, beating the consensus expected 0.3%. Personal consumption was up 0.2% in June, matching consensus expectations. Personal income is up 4.1% in the past year, while spending is up 3.2%.
- Disposable personal income (income after taxes) increased 0.5% in June, and is up 3.4% from a year ago. The gain in June was led by personal interest and private service-sector wages & salaries.
- The overall PCE deflator (consumer prices) increased 0.2% in June and is up 0.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in June and is up 1.3% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in June, but is up 2.9% from a year ago.

Implications: A solid report out today on the consumer showing that incomes and spending continue to rise, and the fundamentals say this should continue. Payrolls are growing about three million per year and wage growth is accelerating as well, with private-sector wages & salaries up a robust 4.5% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.4% in June and is up 4.1% in the past year, faster than the 3.2% 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 5.3%, largely driven by Obamacare. However, outside Medicaid, government transfers are up a slower 3.8% 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 0.2% in June. Although it’s only up 0.3% from a year ago, it’s been held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.3% from a year ago. That’s still below the Fed’s 2% inflation target, but it’s up at a 1.7% annualized rate in the past three months, which supports the case for the first rate hike coming in September.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Jun-15 | May-15 | Apr-15 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.4% | 0.4% | 0.4% | 5.4% | 3.7% | 4.1% |
| Disposable (After-Tax) Income | 0.5% | 0.4% | 0.4% | 5.1% | 2.9% | 3.4% |
| Personal Consumption Expenditures (PCE) | 0.2% | 0.7% | 0.3% | 5.1% | 3.1% | 3.2% |
| Durables | -1.3% | 1.1% | 0.4% | 0.9% | 2.8% | 2.4% |
| Nondurable Goods | 0.4% | 2.0% | -0.5% | 7.5% | 1.4% | -0.6% |
| Services | 0.4% | 0.3% | 0.5% | 5.0% | 3.8% | 4.7% |
| PCE Prices | 0.2% | 0.3% | 0.0% | 2.4% | 1.0% | 0.3% |
| "Core" PCE Prices (Ex Food and Energy) | 0.1% | 0.1% | 0.1% | 1.7% | 1.6% | 1.3% |
| Real PCE | 0.0% | 0.4% | 0.2% | 2.6% | 2.1% | 2.9% |

Source: Bureau of Economic Analysis