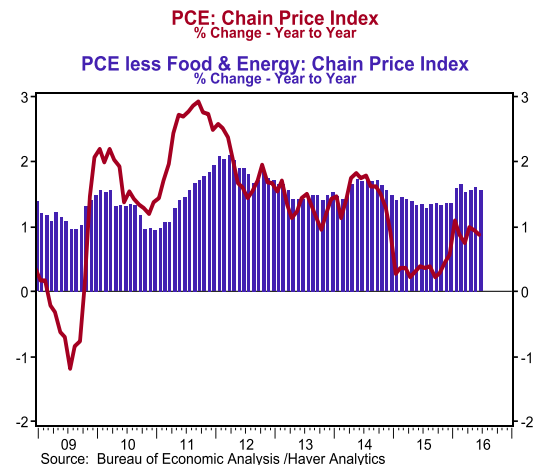
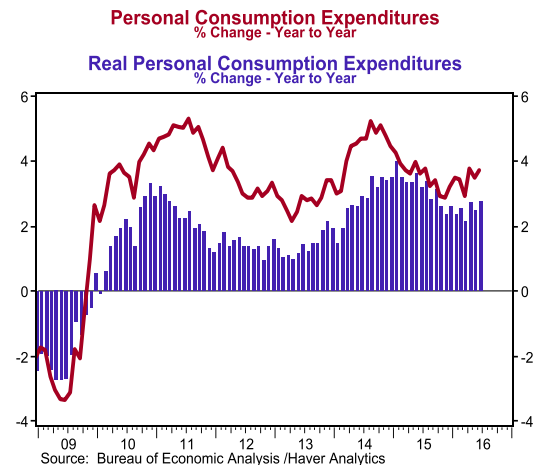


June Personal Income and Consumption

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Personal income increased 0.2% in June while personal consumption rose 0.4%. The consensus expected a 0.3% gain for each. Personal income is up 2.7% in the past year, while spending is up 3.7%.
- Disposable personal income (income after taxes) increased 0.2% in June and is up 3.1% from a year ago. The gain in June was led by private sector wages and salaries plus nonfarm small-business income.
- The overall PCE deflator (consumer prices) rose 0.1% in June and is up 0.9% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in June and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption rose 0.3% in June and is up 2.8% from a year ago.

Implications: No signs of a recession here, not even close. Consumer spending grew 0.4% in June. Coming on top of gains of 1% in April and 0.4% in May, this is not what you’d expect to see if consumers felt nervous about the economy. Spending is up at a 7.5% annual rate over the past three months, the fastest pace since 2009. “Real” (inflation-adjusted) consumer spending grew 0.3% in June and is up 2.8% in the past year. Although personal income grew a modest 0.2% in June, it was led by a 0.3% increase in private-sector wages and salaries. As the labor market keeps tightening, look for income growth to reaccelerate in the months ahead. The one consistent dark cloud in these reports has been the data on government redistribution. While unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons, although unchanged in June, are up 3.4% in the past year. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they’re around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens work incentives. That’s why we have a Plow Horse economy, not a Race Horse economy. On the inflation front, the PCE deflator, the Fed’s favorite measure, increased 0.1% in June. Although it’s only up 0.9% from a year ago, it was up only 0.4% in the year ending in June 2015, so inflation is accelerating. Meanwhile, the “core” PCE deflator, which excludes food and energy, is up 1.6% from a year ago. That’s also below the Fed’s 2% inflation target, but we expect continued acceleration in the year-to-year change in the months ahead. Together with continued employment gains, these data support the case for the Fed to hike rates again in 2016, hopefully by September, in spite of fear-mongering by uber-doves.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-16	May-16	Apr-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.2%	0.4%	3.0%	1.9%	2.7%
Disposable (After-Tax) Income	0.2%	0.2%	0.4%	3.1%	2.5%	3.1%
Personal Consumption Expenditures (PCE)	0.4%	0.4%	1.0%	7.5%	4.3%	3.7%
Durables	-0.3%	-0.4%	1.9%	5.0%	0.9%	2.3%
Nondurable Goods	0.7%	0.4%	1.6%	11.3%	3.9%	1.4%
Services	0.5%	0.5%	0.7%	6.7%	5.0%	4.7%
PCE Prices	0.1%	0.2%	0.3%	2.4%	1.4%	0.9%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.2%	1.7%	1.9%	1.6%
Real PCE	0.3%	0.2%	0.7%	5.0%	2.9%	2.8%

Source: Bureau of Economic Analysis