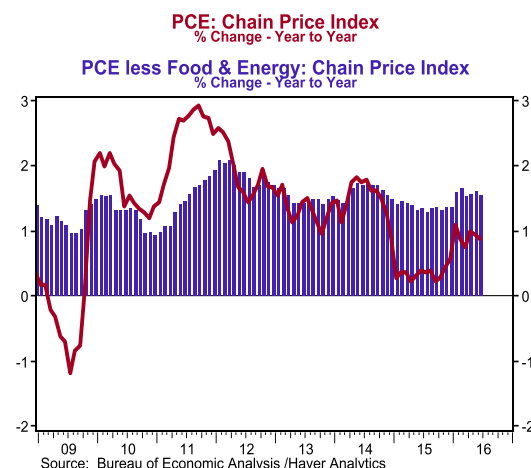
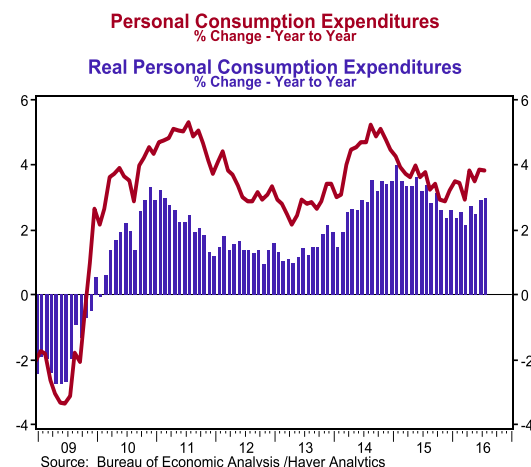


## July Personal Income and Consumption

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- Personal income increased 0.4% in July, matching consensus expectations, but was up 0.9% including prior months' revisions. Personal consumption rose 0.3% in July, also matching consensus expectations, but, including prior months' revisions was up 0.5%. Personal income is up 3.3% in the past year, while spending is up 3.8%.
- Disposable personal income (income after taxes) increased 0.4% in July and is up 3.6% from a year ago. The gain in July was led by private sector wages and salaries.
- The overall PCE deflator (consumer prices) was unchanged in July but is up 0.8% versus a year ago. The "core" PCE deflator, which excludes food and energy, increased 0.1% in July and is up 1.6% in the past year.
- After adjusting for inflation, "real" consumption rose 0.3% in July and is up 3.0% from a year ago.

**Implications:** No signs of a recession here, not even close. Consumer spending grew 0.3% in July on top of large gains over the past three months. This is not what you'd expect to see if consumers felt nervous about the economy. Over the past four months, spending is up at a 7% annual rate, the fastest pace since 2005. "Real" (inflation-adjusted) consumer spending grew 0.3% in July and is up 3% in the past year. Meanwhile personal income grew 0.4% in July, and, including revisions to prior months, was up a whopping 0.9%. The gain was led by a 0.6% increase in private-sector wages and salaries. As the labor market keeps tightening, look for income growth to continue to accelerate. The one consistent dark cloud in these reports has been the data on government redistribution. While unemployment compensation is the lowest since 2007, overall government transfers to persons are up 3.5% 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, was unchanged in July. Although it's only up 0.8% from a year ago, it was up only 0.4% in the year ending in July 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 in September.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-16	Jun-16	May-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.4%	0.3%	0.3%	4.4%	3.6%	3.3%
<i>Disposable (After-Tax) Income</i>	0.4%	0.3%	0.3%	4.4%	3.8%	3.6%
<b>Personal Consumption Expenditures (PCE)</b>	0.3%	0.5%	0.3%	5.0%	5.2%	3.8%
<i>Durables</i>	1.6%	0.3%	-0.4%	6.4%	7.4%	3.8%
<i>Nondurable Goods</i>	-0.5%	0.5%	0.4%	1.6%	3.0%	0.4%
<i>Services</i>	0.4%	0.6%	0.5%	5.8%	5.5%	4.9%
<b>PCE Prices</b>	0.0%	0.1%	0.2%	1.1%	1.2%	0.8%
<i>"Core" PCE Prices (Ex Food and Energy)</i>	0.1%	0.1%	0.2%	1.4%	1.6%	1.6%
<b>Real PCE</b>	0.3%	0.4%	0.2%	3.8%	3.9%	3.0%

Source: Bureau of Economic Analysis