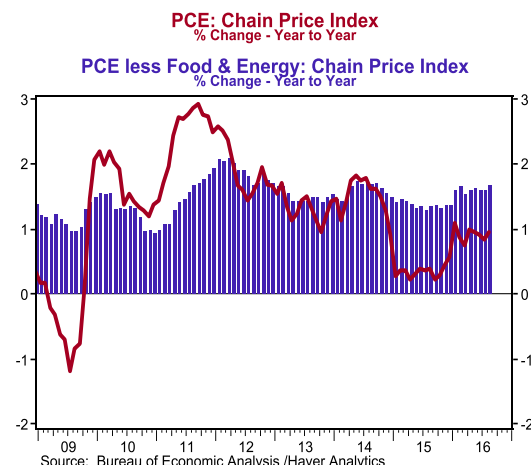
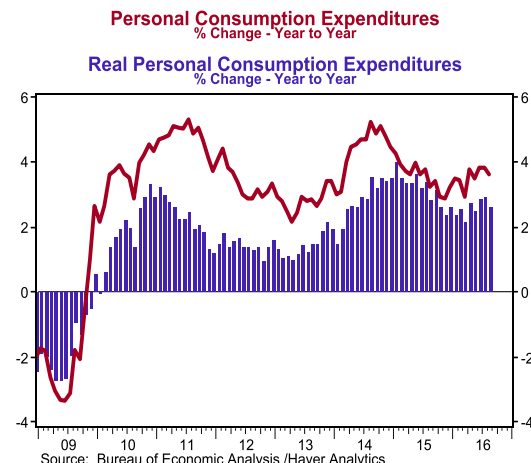


August Personal Income and Consumption

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- Personal income increased 0.2% in August, matching consensus expectations. Personal consumption was unchanged in August, coming in below the consensus expected gain of 0.1%. Personal income is up 3.1% in the past year, while spending is up 3.6%.
- Disposable personal income (income after taxes) increased 0.2% in August and is up 3.4% from a year ago. The gain in August was led by government transfer payments, wages and salaries, and dividends.
- The overall PCE deflator (consumer prices) was up 0.1% in August and is up 1.0% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.2% in August and is up 1.7% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in August but is up 2.6% from a year ago.

Implications: After four straight months of strong growth in spending, consumers took a breather in August. Overall consumption was flat and after subtracting inflation, “real” consumption fell 0.1%. There is no reason to fret; spending is still up 3.6% from a year ago, while real spending is up 2.6%. Based on auto sales projections, it looks like consumer spending started growing again in September. And, with incomes growing, spending is unlikely to slow in the year ahead. Personal income grew 0.2% in August and is up 3.1% in the past year. As the labor market keeps tightening, look for income growth to accelerate. The one consistent dark cloud in these reports is government redistribution. While unemployment compensation is hovering around the lowest levels 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 no longer falling. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens work incentives. That’s the key reason why we have a Plow Horse economy, not a Race Horse economy. On the inflation front, the PCE deflator, the Fed’s favorite measure, rose 0.1% in August. Although it’s only up 1.0% from a year ago, it was up only 0.4% in the year ending in August 2015, so inflation is accelerating. Meanwhile, the “core” PCE deflator, which excludes food and energy, is up 1.7% 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 in December.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-16	Jul-16	Jun-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.4%	0.3%	4.1%	4.2%	3.1%
Disposable (After-Tax) Income	0.2%	0.4%	0.3%	3.8%	4.2%	3.4%
Personal Consumption Expenditures (PCE)	0.0%	0.4%	0.5%	3.8%	4.8%	3.6%
Durables	-1.3%	2.1%	0.3%	4.4%	4.7%	3.0%
Nondurable Goods	-0.2%	-0.6%	0.5%	-1.2%	4.3%	0.2%
Services	0.3%	0.4%	0.6%	5.3%	5.0%	4.8%
PCE Prices	0.1%	0.0%	0.1%	1.2%	1.7%	1.0%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.1%	1.5%	1.6%	1.7%
Real PCE	-0.1%	0.3%	0.4%	2.6%	3.1%	2.6%

Source: Bureau of Economic Analysis