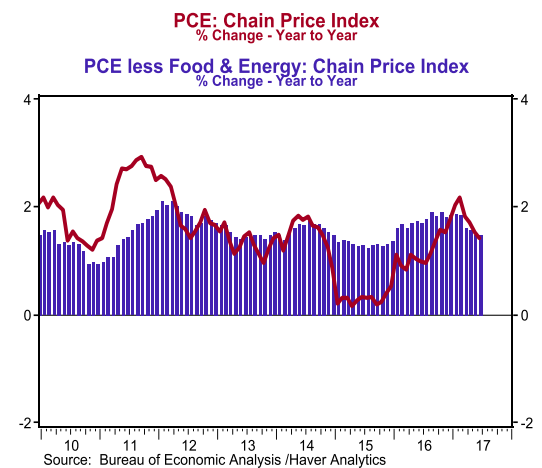
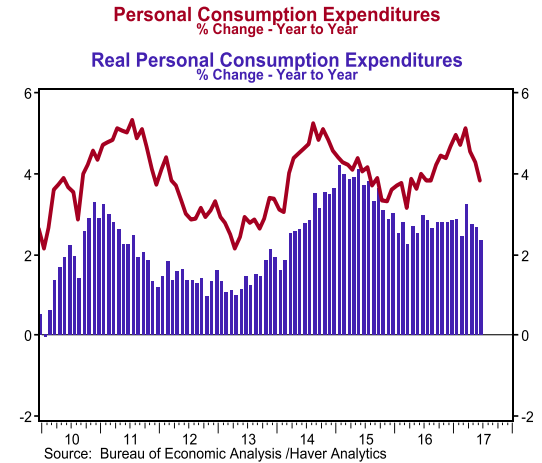


June Personal Income and Consumption

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- Personal income was unchanged in June, coming in below the consensus expected gain of 0.4%. Personal consumption increased 0.1%, matching consensus. Personal income is up 2.6% in the past year, while spending is up 3.8%.
- Disposable personal income (income after taxes) was unchanged in June but is up 2.6% from a year ago.
- The overall PCE deflator (consumer inflation) was unchanged in June but is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in June and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption was unchanged in June but is up 2.4% from a year ago.

Implications: Despite a healthy rise in wages and salaries, a dip in dividend income caused personal income to show no change in June. In reality, this is a bit of a quirk in the calculation, as the dip in dividends largely represents a pullback from the special dividend issued by Costco in May. So May saw a 4.8% bump in dividend income, while June showed a decline that was really a return to more normal levels. Even including the breather in June, personal income has risen at a healthy 4.4% annualized rate through the first half of 2017, and shows a clear acceleration from the 2.3% annualized rate in the first half of last year. On the spending side, personal consumption ticked up 0.1%. As always, we like to take a step back and look at the trend. While spending growth has outpaced income over the past year, incomes are up at a 4.4% annual rate in the past six months compared to a 2.9% pace for spending. Some stories are claiming consumers are in trouble, but the facts suggest otherwise. Consumer debts are at a record high in dollar terms, but so are consumer assets. Comparing the two, debts are the lowest relative to assets since 2000 (and that’s back during the internet bubble when asset values were artificially high). Meanwhile, the financial obligations ratio - which compares debt and other recurring payments to income – is still hovering near the lowest levels of the past thirty-five years. The US consumer is in excellent shape. On the inflation front, the PCE deflator was flat in June but is up 1.4% in the past year. By contrast, a year ago in June 2016, the 12-month change for prices was only 1.0%; in June 2015, it was up a meager 0.3%. In other words, we think inflation is still in a long-term accelerating trend. Rising energy prices should push inflation readings higher in July, and we expect inflation to be close to the Fed’s 2% inflation target at year end, which is consistent with the Fed starting balance sheet normalization on October 1 and raising rates one more time in December. In other recent news, pending home sales, which are contracts on existing homes, rose 1.5% in June after declining 0.7% in May. These figures suggest a small increase in existing home sales (which are counted at closing) in July, with sales compared to a year ago remaining in a rising trend.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-17	May-17	Apr-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.0%	0.3%	0.2%	1.9%	4.4%	2.6%
Disposable (After-Tax) Income	0.0%	0.4%	0.2%	2.6%	4.6%	2.6%
Personal Consumption Expenditures (PCE)	0.1%	0.2%	0.3%	2.0%	2.9%	3.8%
Durables	-0.4%	0.0%	0.4%	0.1%	-0.3%	3.2%
Nondurable Goods	-0.4%	-0.4%	0.4%	-1.7%	0.7%	2.1%
Services	0.3%	0.3%	0.2%	3.4%	4.1%	4.5%
PCE Prices	0.0%	0.0%	0.2%	0.8%	1.0%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.2%	1.6%	1.4%	1.5%
Real PCE	0.0%	0.2%	0.1%	1.1%	1.9%	2.4%

Source: Bureau of Economic Analysis