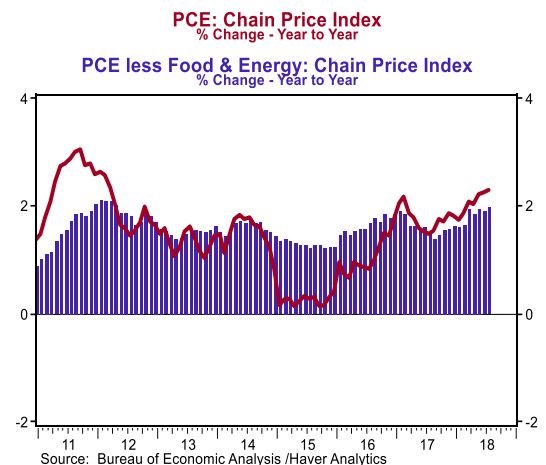
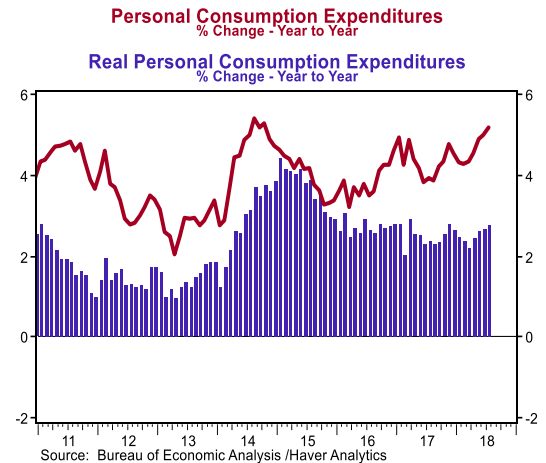


July Personal Income and Consumption

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- Personal income rose 0.3% in July, lagging the consensus expected 0.4%. Personal consumption increased 0.4% in July, matching consensus expectations. Personal income is up 4.7% in the past year, while spending is up 5.2%.
- Disposable personal income (income after taxes) rose 0.3% in July and is up 5.3% from a year ago. The gain in July was led by private-sector wages and salaries.
- The overall PCE deflator (consumer prices) rose 0.1% in July and is up 2.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in July and is up 2.0% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in July is up 2.8% from a year ago.

Implications: A healthy start, all-around, to the third quarter for the consumer, as both incomes and consumption continue to trend higher. Private-sector wages and salaries led the gains to income, rising 0.4% in July and are up a healthy 5.1% in the past year. As a result, total personal income is up 4.7% in the past year, an acceleration from the 4.3% gain for the twelve months ending July 2017. Meanwhile, disposable (after-tax) income, which also shows the benefit to consumers from the tax cuts, is up 5.3% over the past year. On the spending side, personal consumption increased 0.4% in July and is up 5.2% in the past year, led higher by spending on hotels, restaurants, and prescriptions drugs. While consumption growth has trended moderately above income growth over the past few years, this follows a period between 2010 and 2015 where income growth outpaced the growth in spending. As a result, consumer balance sheets still remain very healthy, with plenty of room for higher spending in the months ahead. One of the best pieces of news in today’s report is that government transfers continue to grow at a slower pace than overall income. So, while government transfers are still up 4.0% in the past year, transfer payments are making up a smaller – though still too high – portion of income. On the inflation front, the PCE deflator rose 0.1% in July and is up 2.3% in the past year. Meanwhile, “core” prices, which exclude food and energy, are up 2.0% in the past year. In other words, all major measures of inflation are now at or above the Fed’s 2% target. Paired with strong economic growth, today’s data continue to reinforce our forecasts for two more rate hikes this year, with four more to follow in 2019. On the labor market, initial jobless claims rose 3,000 last week to 213,000, only 5,000 above the lowest reading since December 1969. Meanwhile, continuing claims fell 19,000 to 1.71 million. Normally, this would signal another month of strong job growth. However, the first report on August payrolls tends to come in lower than the consensus expects and then get revised up in later months. As a result, we think the official report on payroll growth to be released September 7 will show a smaller gain than the consensus expected 192,000. If so, don’t get fooled by the bears into thinking that’s a reason to sell equities; it’s just a seasonal quirk.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-18	Jun-18	May-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.4%	0.3%	4.2%	4.2%	4.7%
Disposable (After-Tax) Income	0.3%	0.4%	0.4%	4.5%	4.4%	5.3%
Personal Consumption Expenditures (PCE)	0.4%	0.4%	0.5%	5.2%	4.7%	5.2%
Durables	-0.2%	-0.1%	0.2%	-0.1%	2.6%	3.4%
Nondurable Goods	0.4%	-0.1%	1.2%	6.0%	3.6%	6.1%
Services	0.4%	0.6%	0.4%	5.8%	5.3%	5.2%
PCE Prices	0.1%	0.1%	0.2%	1.7%	1.7%	2.3%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.2%	1.9%	2.0%	2.0%
Real PCE	0.2%	0.3%	0.3%	3.4%	3.0%	2.8%

Source: Bureau of Economic Analysis