

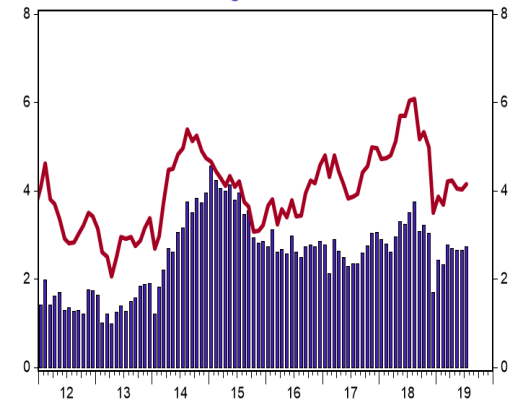
## July Personal Income and Consumption

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- Personal income rose 0.1% in July versus a consensus expected 0.3%. Personal consumption rose 0.6% in July (+0.8% including revisions to prior months), beating the consensus expected gain of 0.5%. Personal income is up 4.6% in the past year, while spending has increased 4.1%.
- Disposable personal income (income after taxes) increased 0.3% in July and is up 4.5% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in July and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in July and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption increased 0.4% in July, and is up 2.7% from a year ago.

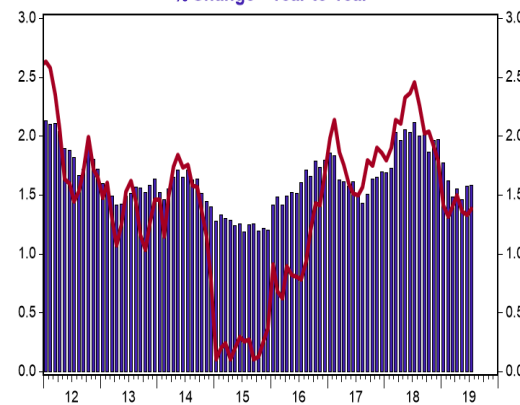
**Implications:** Wages were rising and consumers were spending to start the second half of 2019 on strong footing. While the 0.1% increase in personal income in July fell short of consensus estimates, incomes are up a healthy 4.6% in the past year, and up a faster 4.9% annualized rate over the past six months. And incomes would have been higher in July, but for a 1.8% decline in interest income that partially offset rising wages and salaries from the private sector as well as government transfer payments. Spending, meanwhile, jumped 0.6% in July (and was up a faster 0.8% including revisions to prior months). As with incomes, spending has also accelerated, up 4.1% in the past year, but up a faster 6.2% at an annualized rate over the past six months. In fact, through July, consumers are spending at the fastest year-to-date pace we have seen since 2006. This is not the type of data that supports further rate cuts or cries that we are staring down a recession. That said, we still expect to see the Fed move rates lower at the next meeting in mid-September. Their focus has been on inflation, which has continued to run below its 2% target. PCE prices rose 0.2% in July and are up 1.4% in the past year, while “core” prices, which exclude the volatile food and energy sectors, also rose 0.2% in July but are up a slightly faster 1.6% in the past twelve months. However, over the past three months those measures are on the rise, with overall PCE prices up at a 1.7% annualized rate while “core” prices are up 2.2% annualized. In other words, inflation is moving towards the target, and is already there under the more reliable “core” measure. Unfortunately, today’s data (or any of the other strong data released since the last Fed meeting) will probably do little to change its leanings toward cutting rates. Is a rate cut needed? Not at all. The US continues to benefit from the tailwinds of tax reform and deregulation put in place over the past two years, and the economy is on track to once again grow near the fastest annual pace in more than a decade. There is no recession on the horizon, and no need for government intervention. In other news this morning, the Chicago Purchasing Managers Index (a gauge of business sentiment in the region) rose to 50.4 in August from 44.4 in July. Plugging this data into our models suggests the national ISM Manufacturing index, scheduled for release next Tuesday, is likely to rise modestly to 51.3 for August from 51.2 in July. We think recent survey softness has largely been due to trade-related headlines that have temporarily stoked negative sentiment and fear, and do not suggest a significant slowdown in actual production.

Personal Consumption Expenditures  
% Change - Year to Year  
Real Personal Consumption Expenditures  
% Change - Year to Year



Source: Bureau of Economic Analysis/Haver Analytics

PCE: Chain Price Index  
% Change - Year to Year  
PCE less Food & Energy: Chain Price Index  
% Change - Year to Year



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-19	Jun-19	May-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.1%</b>	0.5%	0.4%	3.9%	4.9%	4.6%
<b>Disposable (After-Tax) Income</b>	<b>0.3%</b>	0.4%	0.3%	4.1%	4.8%	4.5%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.6%</b>	0.3%	0.5%	6.0%	6.2%	4.1%
<b>Durables</b>	<b>0.6%</b>	0.4%	1.4%	10.4%	8.6%	4.4%
<b>Nondurable Goods</b>	<b>1.1%</b>	0.3%	0.3%	6.9%	8.2%	3.8%
<b>Services</b>	<b>0.5%</b>	0.3%	0.4%	5.1%	5.2%	4.2%
<b>PCE Prices</b>	<b>0.2%</b>	0.1%	0.1%	1.7%	2.1%	1.4%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.2%	0.1%	2.2%	1.7%	1.6%
<b>Real PCE</b>	<b>0.4%</b>	0.2%	0.4%	4.2%	4.1%	2.7%

Source: Bureau of Economic Analysis