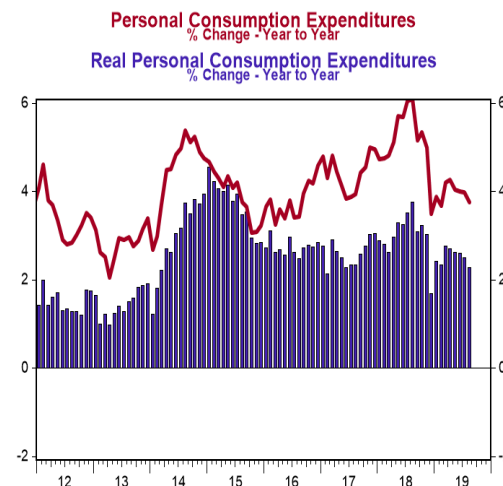


August Personal Income and Consumption

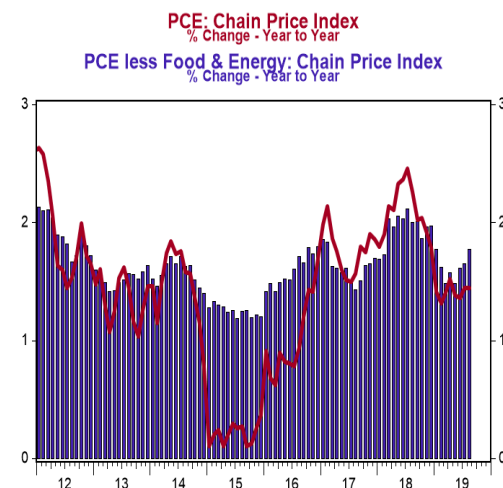
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- Personal income rose 0.4% in August, matching consensus expectations. Personal consumption rose 0.1% in August (0.0% including revisions to prior months), lagging the consensus expected gain of 0.3%. Personal income is up 4.6% in the past year, while spending has increased 3.7%.
- Disposable personal income (income after taxes) increased 0.5% in August and is up 4.5% from a year ago.
- The overall PCE deflator (consumer prices) remained unchanged in August but is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in August and is up 1.8% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in August, and is up 2.3% from a year ago.

Implications: Paychecks continued to rise at a strong pace in August while spending growth downshifted following a surge in July. Personal income rose 0.4% in August, while income after taxes rose an even faster 0.5%. And incomes would have been higher in August, but for a 0.6% decline in interest income that partially offset rising wages and salaries from the private sector as well as small business income. Spending, meanwhile, rose 0.1% in August and is up 3.7% in the past year. Within spending, the strongest contributor to growth in August was durable goods, which rose 0.7% due primarily to cars and recreational vehicles. The biggest source of weakness in spending in August came from non-durable goods, which fell 0.2% due to lower costs for energy. Meanwhile, spending in the service sector (which accounts for the majority of spending) rose a respectable 0.2%, and would have been stronger if it weren't for a large pullback in the restaurant series, perhaps due to oncoming hurricanes near the end of the month. It's also important to note that, in spite of the small gain in August, spending has been accelerating recently, up at a 6.3% annualized rate in the past six months versus a gain of 3.7% in the past year. 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 think that one more rate cut from the Fed this year is more likely than not. Their greater concern has been inflation, which continues to run below its 2% target. PCE prices were unchanged in August and are up 1.4% in the past year, while “core” prices, which exclude the volatile food and energy sectors, rose 0.1% in August but are up a slightly faster 1.8% in the past twelve months. However, over the past three months both measures are on the rise, with overall PCE prices up at a 1.6% annualized rate while “core” prices are up 2.5% 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 continues to march on despite uncertainty surrounding trade (which the Fed can't fix anyway). There is no recession on the horizon, and no need for government intervention.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-19	Jul-19	Jun-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.1%	0.4%	3.9%	4.5%	4.6%
Disposable (After-Tax) Income	0.5%	0.3%	0.4%	4.7%	4.6%	4.5%
Personal Consumption Expenditures (PCE)	0.1%	0.5%	0.3%	4.0%	6.3%	3.7%
Durables	0.7%	0.4%	0.5%	6.8%	12.8%	4.4%
Nondurable Goods	-0.2%	1.1%	0.2%	4.1%	8.8%	3.4%
Services	0.2%	0.3%	0.4%	3.5%	4.6%	3.8%
PCE Prices	0.0%	0.2%	0.1%	1.6%	2.1%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.3%	2.5%	2.1%	1.8%
Real PCE	0.1%	0.3%	0.2%	2.3%	4.2%	2.3%

Source: Bureau of Economic Analysis