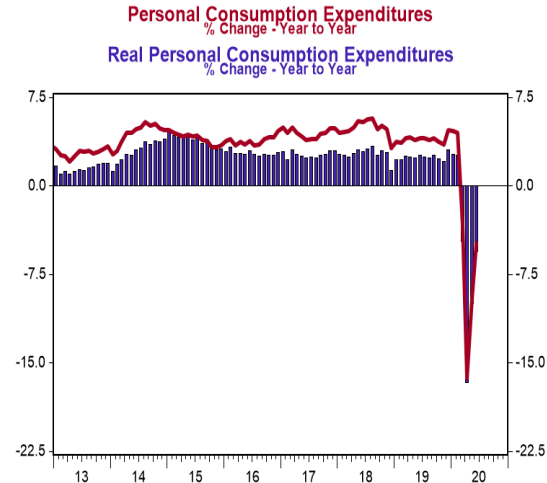


June Personal Income and Consumption

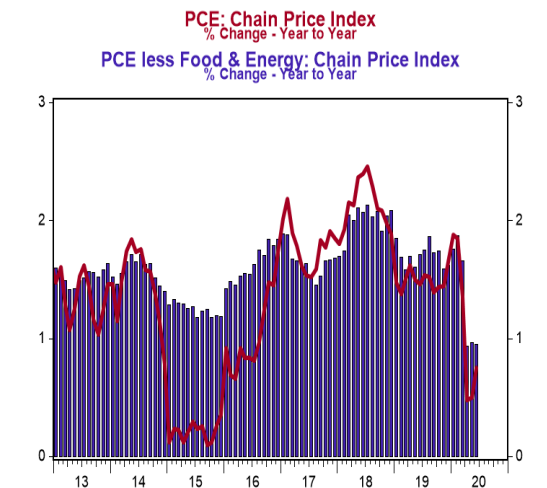
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- Personal income declined 1.1% in June, below the consensus expected decline of 0.6%. Personal consumption rose 5.6% in June, beating the consensus expected gain of 5.2%. Personal income is up 7.4% in the past year, while spending has declined 4.8%.
- Disposable personal income (income after taxes) fell 1.4% in June, but is up 8.9% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in June and is up 0.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in June and is up 0.9% in the past year.
- After adjusting for inflation, “real” consumption increased 5.2% in June but is down 5.5% from a year ago.

Implications: Consumer spending rose sharply in June, while extra government stimulus payments remained on a downward trend, pushing down overall personal income for the month. All of June’s 1.1% decline in personal income can be traced to the tapering off of CARES Act stimulus payments sent to individuals. Meanwhile, private-sector wages & salaries, small-business income, and unemployment benefits continued to rise in June. Outside of government transfer payments, personal income rose by 1.8% in June, which should come as little surprise given the increase of 4.8 million jobs in June. Even with the increased spending and decline in income, the saving rate remained elevated in June at 19.0%. This is down from 33.5% back in April, but still well above “normal” levels. The next few months will continue to see the numbers muddled by the extraordinary measures taken in response to COVID-19, but what is clear is that the economy has turned the corner and the recovery process is under way. On the spending side, personal consumption jumped 5.6% in June, the second largest monthly increase in the report’s history, with only May’s 8.5% surge beating it out. The rise was led by spending on goods, up 6.4%. Within the category, durable goods led the way, as consumers picked up purchases of autos and recreational goods and vehicles. Spending on services wasn’t far behind, rising 5.2% in June, as, once again, health care spending had one of the largest movements, up 14.0%. While spending rose across most major categories, a few highlights in June include spending on live entertainment (+897.0%), sports tickets (+638.0%), casino gambling (+443.1%), and air transportation (+108.8%). On the inflation front, PCE prices rose 0.4% in June and are up 0.8% from a year ago. Core prices, which exclude food and, more importantly, the very volatile energy component, rose 0.2% in June, and are up 0.9% from a year ago. Notably, the Fed’s last set of economic projections had PCE prices up 0.8% for 2020. The fact that the year-ago comparison is already up 0.8% as of June suggests they underestimated inflation for the year. The nation as a whole continues to see economic activity on the rise, and now that the “second wave” states like Texas, Florida, Arizona, and California are beginning to see cases fall once again, some of the recent headwinds to the recovery look like they will begin to dissipate as well. Expect continued economic progress, though the pace of growth may be lumpy geographically in the weeks and months ahead. In other news this morning, the Chicago PMI rose to 51.9 in July from 36.6 in June, posting its first expansionary reading in more than a year. Plugging this into our models suggests the national ISM index, reported Monday, will show a rise to about 53.5 for July from 52.6 for June.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-20	May-20	Apr-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-1.1%	-4.4%	12.1%	25.9%	11.8%	7.4%
Disposable (After-Tax) Income	-1.4%	-5.1%	14.7%	32.3%	14.6%	8.9%
Personal Consumption Expenditures (PCE)	5.6%	8.5%	-12.9%	-0.8%	-12.4%	-4.8%
Durables	8.7%	28.9%	-12.4%	126.5%	16.8%	8.5%
Nondurable Goods	5.2%	7.6%	-14.0%	-10.5%	2.3%	1.9%
Services	5.2%	5.8%	-12.6%	-10.3%	-20.4%	-8.9%
PCE Prices	0.4%	0.1%	-0.5%	-0.2%	-0.1%	0.8%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.2%	-0.4%	-0.3%	0.3%	0.9%
Real PCE	5.2%	8.3%	-12.4%	-0.6%	-12.2%	-5.5%

Source: Bureau of Economic Analysis