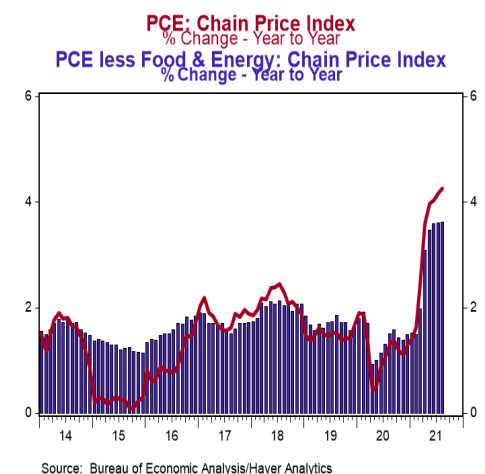
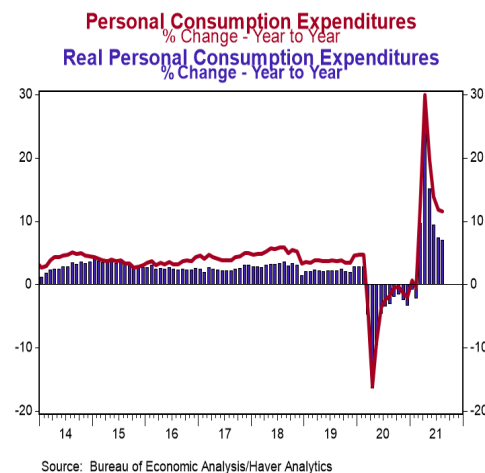


**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Senior Economist  
**Andrew Opdyke, CFA** – Senior Economist

## August Personal Income and Consumption

- Personal income rose 0.2% in August, matching consensus expectations. Personal consumption rose 0.8% in August (+0.6% including prior months' revisions), versus a consensus expected +0.7%. Personal income is up 6.1% in the past year, while spending has increased 11.6%.
- Disposable personal income (income after taxes) rose 0.1% in August and is up 4.5% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in August and is up 4.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.3% in August and is up 3.6% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in August and is up 7.0% from a year ago.

**Implications:** Both income and spending rose in August, as the data show the economy returning to the fundamental drivers of activity, and away from the temporary stimulus boosters that could never be relied on for long-term growth. While government transfer payments continued to add to income in August, it was private sector wages and salaries that led growth, up 0.5% on the month. On September 6th, the two programs providing additional unemployment benefits – Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) – expired nationally. These two programs, which expanded access beyond traditional state-level jobless benefits, had more than eight million recipients come expiration day. While these benefits, plus tax rebates, caused a surge in income in 2020 even as people lost jobs, the expiration of benefits will likely put temporary downward pressure on income in the months ahead. The key question through the remainder of 2021 is how quickly people return to work (for more on this topic, [check out this week’s Monday Morning Outlook](#)). With the August increase, private-sector wages and salaries are up a massive 10.8% in the past year, but, more importantly, also stand 6.7% above pre-COVID levels. It was always going to take getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus was (and remains) simply an opioid to hide the pain until the real healing could take place. Following income higher in August, spending rose 0.8%. With spending rising at a faster pace than income, the saving rate declined to 9.4%, but remains above pre-COVID levels. On the inflation front, PCE prices grew 0.4% in August, and are up 4.3% from a year ago. Core prices, which exclude food and energy, rose 0.3% in August and are up 3.6% from a year ago. While the massive impact of shutdowns last year muddies the inflation picture, a look at price pressures over the past six months (which reduces the “base effect” impact), shows an even more profound rise in inflation, with overall PCE prices up at a 6.2% annualized rate. In other words, inflation also reflects the loose stance of monetary policy in addition to the imbalance in supply and demand. Since February 2020 (pre-COVID), PCE prices are up at a 3.1% annual rate, which is above the Fed’s 2.0% long-term target. Barring a disaster of an employment report next Friday, we expect the Fed will announce the start to asset purchase tapering at the meeting in early November.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-21	Jul-21	Jun-21	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.2%</b>	1.1%	0.2%	6.1%	7.8%	6.1%
<b>Disposable (After-Tax) Income</b>	<b>0.1%</b>	1.1%	0.0%	5.1%	6.7%	4.5%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.8%</b>	-0.1%	1.1%	7.8%	17.3%	11.6%
<b>Durables</b>	<b>-0.4%</b>	-4.1%	-0.3%	-17.6%	14.8%	12.2%
<b>Nondurable Goods</b>	<b>2.1%</b>	-1.0%	2.0%	13.3%	22.5%	13.9%
<b>Services</b>	<b>0.6%</b>	1.1%	1.1%	11.8%	16.1%	10.7%
<b>PCE Prices</b>	<b>0.4%</b>	0.4%	0.5%	5.5%	6.2%	4.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.3%</b>	0.3%	0.5%	4.6%	5.6%	3.6%
<b>Real PCE</b>	<b>0.4%</b>	-0.5%	0.6%	2.2%	10.5%	7.0%

Source: Bureau of Economic Analysis