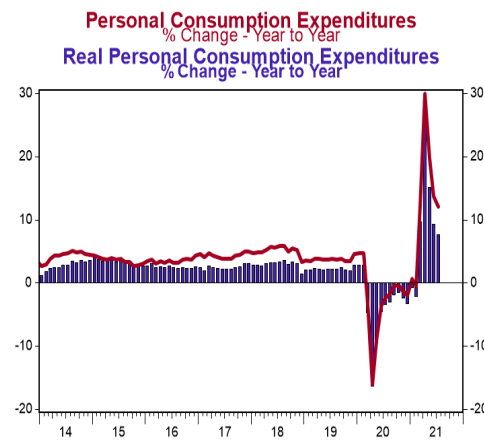


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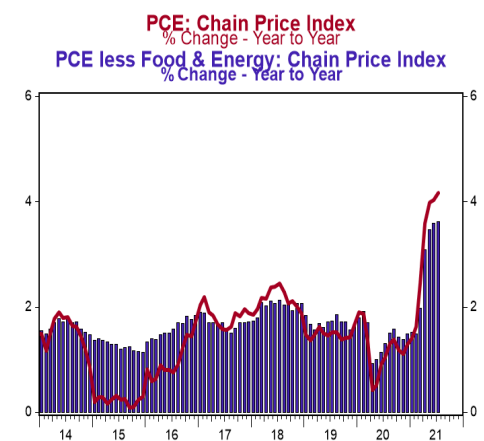
July Personal Income and Consumption

- Personal income rose 1.1% in July (+1.2% including revisions to prior months), easily beating the consensus expected +0.3%. Personal consumption rose 0.3% in July (+0.4% including prior months revisions), versus a consensus expected +0.4%. Personal income is up 2.7% in the past year, while spending has increased 12.1%.
- Disposable personal income (income after taxes) rose 1.1% in July and is up 0.5% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in July and is up 4.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.3% in July and is up 3.6% in the past year.
- After adjusting for inflation, “real” consumption declined 0.1% in July, but is up 7.6% from a year ago.

Implications: Personal income surprised to the upside in July, as the Child Tax Credit authorized in March’s stimulus plan boosted income even more than a robust gain in private-sector wages and salaries. While government transfer payments were a notable contributor to income numbers in July, they are going to turn into a headwind in the months ahead. Come September 6th, two programs are set to expire nationally: Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC). These two programs, which expanded access beyond traditional state-level jobless benefits, have around 8.7 million recipients according to yesterday’s unemployment insurance release. While these benefits, plus tax rebates, caused a surge in income in 2020 even as people lost jobs, the expiration of benefits will put some temporary downward pressure on income in the months to come. The key question through the remainder of 2021 surrounds how quickly people return to work, bringing the far more sustainable private-sector wages and salaries component of income – which rose a healthy 1.0% in July – back to the spotlight. With the July increase, private-sector wages and salaries are up a massive 11.2% in the past year, but, more importantly, also stand 6.0% 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 July, spending rose 0.3%. With spending rising at a slower pace than income, the saving rate rose to 9.6%, and remains noticeably above pre-COVID levels. On the inflation front, PCE prices grew 0.4% in July, and are up 4.2% from a year ago. Core prices, which exclude food and energy, rose 0.3% in July and are up 3.6% from a year ago. While the massive impact of shutdowns last year muddied 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 5.9% 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 3.0% annual rate, which is above the Fed’s 2.0% long-term target. Today’s data won’t lead to any fireworks at the Jackson Hole conference now underway, but it lends further support for a Fed tapering announcement in September.



Source: Bureau of Economic Analysis/Haver Analytics



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Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-21	Jun-21	May-21	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	1.1%	0.2%	-2.1%	-3.4%	-7.6%	2.7%
Disposable (After-Tax) Income	1.1%	0.0%	-2.7%	-6.3%	-10.9%	0.5%
Personal Consumption Expenditures (PCE)	0.3%	1.1%	0.1%	5.7%	13.5%	12.1%
Durables	-2.3%	-0.4%	-3.9%	-23.7%	10.4%	16.1%
Nondurable Goods	-0.4%	1.9%	-0.5%	4.1%	13.2%	11.8%
Services	1.0%	1.1%	1.1%	13.5%	14.3%	11.4%
PCE Prices	0.4%	0.5%	0.5%	6.1%	5.9%	4.2%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.5%	0.6%	5.7%	5.3%	3.6%
Real PCE	-0.1%	0.5%	-0.5%	-0.4%	7.2%	7.6%

Source: Bureau of Economic Analysis