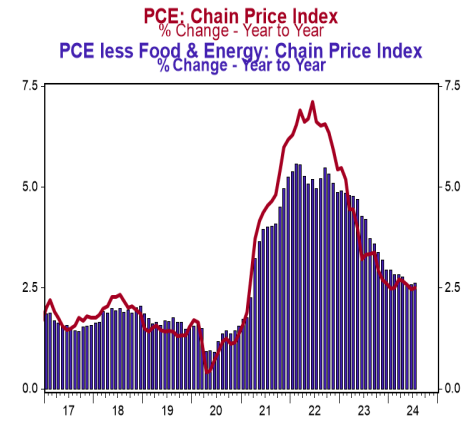


## July Personal Income and Consumption

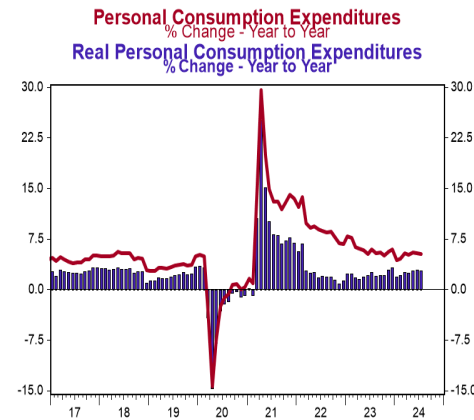
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- Personal income rose 0.3% in July, beating the consensus expected 0.2%. Personal consumption rose 0.5% in July (+0.7% including revisions), matching consensus expectations. Personal income is up 4.5% in the past year, while spending has increased 5.3%.
- Disposable personal income (income after taxes) rose 0.3% in July and is up 3.6% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in July and is up 2.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.2% in July and is up 2.6% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in July and is up 2.7% from a year ago.

**Implications:** Before we dive into incomes and spending, today’s report includes the Fed’s preferred measure of inflation. PCE prices rose 0.2% in July and are up 2.5% in the past year compared to a 3.3% gain in the year ending in July 2023. “Core” prices, which exclude the ever-volatile food and energy categories, also rose 0.2% in July and are up 2.6% versus a year ago, a big improvement from the 4.2% reading for the twelve months ending July 2023. While core price inflation has now stalled for three months at 2.6% on a year-ago basis, it has been enough progress for the Fed to signal it will start cutting rates next month. Transitioning to a focus on how consumers fared in July shows healthy growth. Personal income rose 0.3% in July and is up 4.5% in the past year. Private-sector wages and salaries led the way, up 0.3% on the month and up 3.8% in the past year. Unfortunately government activity continues to run hot as well, with government transfer payments rising 0.3% in July while government pay rose 0.4% and is up 7.6% in the past year, hovering near the largest twelve-month increase in more than three decades. We don’t think the growth in government pay – or massive government deficit spending – is sustainable or good for the US economy. Consumer spending rose 0.5% in July, led by outlays on services which rose 0.4% on the month and are up 6.8% in the past year. Goods spending rose a faster 0.7% in July (but represents a smaller portion of overall consumer spending compared to services) and is up 2.3% from a year ago. When adjusting for inflation, consumption rose a healthy 0.4% in July. We are closely watching the service sector as the driver of consumer activity both now and in the near future, and we expect activity to temper as elevated interest rates and continued inflation pressure take a toll. We are also keeping an eye on the savings rate (the percent of disposable income that consumers save), which hovered around 6.0% pre-COVID, skyrocketed with the excess money printing during COVID, and has now been hovering around 3.0% in recent months. This shortage in savings will catch up with consumers down the road. In other recent news, pending home sales, which are contracts on existing homes, fell 5.5% in July following a 4.8% jump in June. Plugging these figures into our model suggests existing home sales, which are counted at closing, will decline slightly in August.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-24	Jun-24	May-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.3%</b>	0.2%	0.4%	3.7%	3.9%	4.5%
<b>Disposable (After-Tax) Income</b>	<b>0.3%</b>	0.1%	0.3%	3.0%	3.4%	3.6%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.5%</b>	0.3%	0.5%	5.7%	5.9%	5.3%
<b>Durables</b>	<b>1.4%</b>	-0.1%	1.5%	11.9%	6.2%	0.9%
<b>Nondurable Goods</b>	<b>0.4%</b>	0.2%	0.2%	3.1%	4.3%	3.1%
<b>Services</b>	<b>0.4%</b>	0.4%	0.5%	5.6%	6.3%	6.8%
<b>PCE Prices</b>	<b>0.2%</b>	0.1%	0.0%	0.9%	2.3%	2.5%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.2%	0.1%	1.7%	2.6%	2.6%
<b>Real PCE</b>	<b>0.4%</b>	0.3%	0.5%	4.8%	3.5%	2.7%

Source: Bureau of Economic Analysis