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# June Personal Income and Consumption

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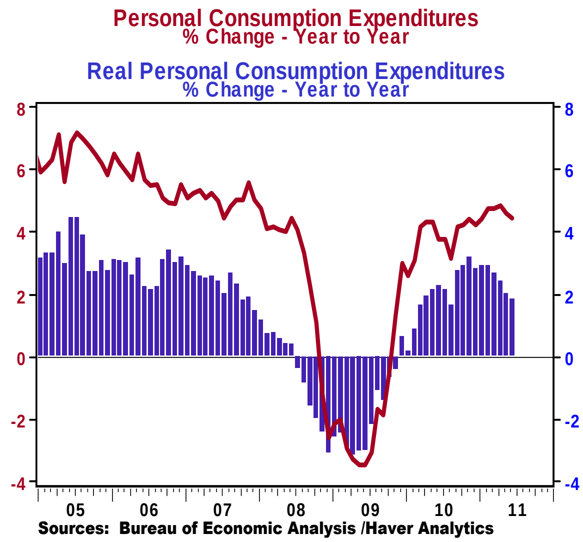
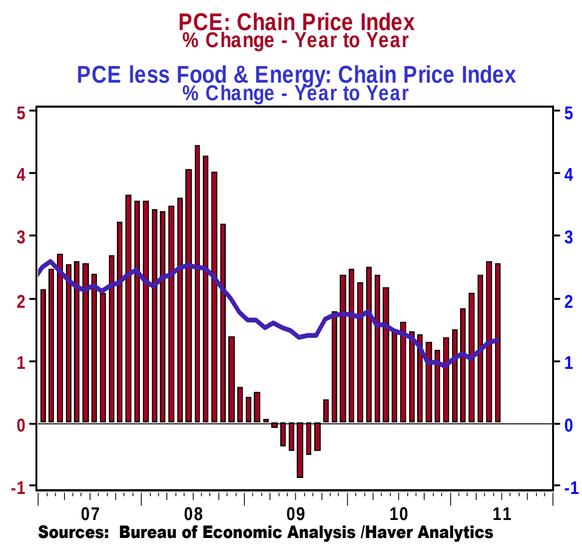
- Personal income increased 0.1% in June, slightly less than the consensus expected. Personal consumption fell 0.2% versus a consensus expected gain of 0.2%. In the past year, personal income is up 5.0% while spending is up 4.4%.
- Disposable personal income (income after taxes) was up 0.1% in June and is up 3.7% versus a year ago. The gain in June was led by interest and dividend income, which was up 4.6% from a year ago.
- The overall PCE deflator (consumer inflation) fell 0.2% in June but is up 2.6% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in June and is up 1.3% since last year.
- After adjusting for inflation, "real" consumption was unchanged in June but is up 1.8% versus a year ago.

**Implications**: Income and spending both came in below expectations in June, in part due to a steep (and what now appears to have been a temporary) drop in commodity prices. "Real" (inflation-adjusted) personal income was up a solid 0.3% in June. Real personal spending was unchanged but will be one of the last greatly affected by the supply-chain disruptions from Japan. Later today automakers will report on car and light truck sales in July and those figures should show a rebound that will boost the consumer spending data a month from now. Although overall consumption prices declined in July due to commodities, the Federal Reserve can't see the report as vindication. "Core" consumption prices, which exclude food and energy, increased 0.1% in June and are up at a 2.2% annual rate in the past three months. That is above the Fed's target of 2%. The Fed must be confused about how core inflation could be rising when the unemployment rate is above 9% and capacity utilization in the industrial sector is below 80%. In their worldview, core inflation should only be rising when resources are constrained, and we're not even close to that environment in their thinking. Over the long run, we think consumer spending should strengthen for a number of reasons. Consumer balance sheets are healthier and financial obligations (monthly payments like mortgages, rent, car loans/leases, as well as other debt service), are the smallest share of disposable income since 1994. Meanwhile, the underlying trend in worker income continues in a favorable direction, with real private-sector earnings (wages, salaries, and small business profits) up 2.1% in the past year.




| Personal Income and Spending<br>*All Data Seasonally Adjusted* | Jun-11 | May-11 | Apr-11 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|---|---|---|---|---|---|
| *Personal Income* | **0.1%** | 0.2% | 0.4% | 3.0% | 5.7% | 5.0% |
| *Disposal (After-Tax) Income* | **0.1%** | 0.2% | 0.4% | 2.8% | 3.8% | 3.7% |
| *Personal Consumption Expenditures (PCE)* | **-0.2%** | 0.1% | 0.2% | 0.2% | 3.6% | 4.4% |
| *Durables* | **-0.4%** | -1.3% | -0.3% | -7.5% | 2.0% | 6.7% |
| *Nondurable Goods* | **-0.6%** | -0.3% | 0.9% | -0.2% | 7.8% | 9.1% |
| *Services* | **0.0%** | 0.4% | 0.0% | 1.6% | 2.5% | 2.6% |
| *PCE Prices* | **-0.2%** | 0.2% | 0.3% | 1.3% | 3.0% | 2.6% |
| *"Core" PCE Prices (Ex Food and Energy)* | **0.1%** | 0.2% | 0.2% | 2.2% | 2.1% | 1.3% |
| *Real PCE* | **0.0%** | -0.1% | -0.1% | -1.1% | 0.6% | 1.8% |

*Source: Bureau of Economic Analysis*