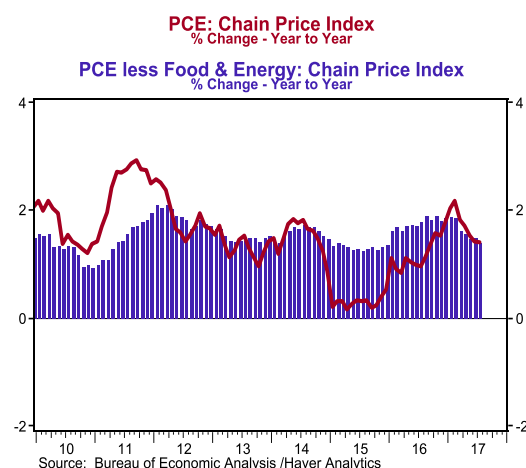
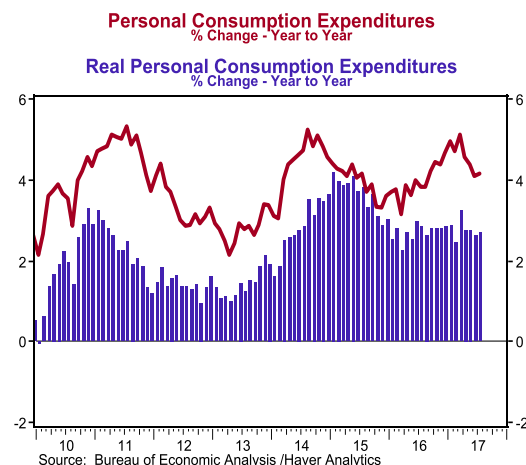


July Personal Income and Consumption

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- Personal income rose 0.4% in July, beating the consensus expected gain of 0.3%. Personal consumption increased 0.3%, slightly below the consensus expected rise of 0.4%. Personal income is up 2.7% in the past year, while spending is up 4.2%.
- Disposable personal income (income after taxes) rose 0.3% in July and is up 2.7% from a year ago.
- The overall PCE deflator (consumer inflation) rose 0.1% in July and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in July and is up 1.4% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in July and is up 2.7% from a year ago.

Implications: Consumers are doing well. Coming off a breather in June, incomes rose a very healthy 0.4% in July. In reality, the lack of growth in June was a quirk: Costco issued a special dividend in May, so a drop in dividends in June offset a continued rise in wages. A focus on private-sector wages and salaries, which also led the rise in incomes in July, shows wages up at a very healthy 5.5% annual rate in the past six months. On the spending side, personal consumption ticked up 0.3% in July. As always, we like to take a step back and look at the trend. While spending growth has outpaced income growth over the past year, incomes are up at a 3.5% annual rate in the past six months compared to a 3.4% pace for spending. Some stories are claiming consumers are in trouble, but the facts suggest otherwise. Consumer debts are at a record high in dollar terms, but so are consumer assets. Comparing the two, debts are the lowest relative to assets since 2000 (and that’s back during the internet bubble when asset values were artificially high). Meanwhile, the financial obligations ratio - which compares debt and other recurring payments to income - is still hovering near the lowest levels of the past thirty-five years. The US consumer is in excellent shape. On the inflation front, the overall PCE deflator rose 0.1% in July and is up 1.4% in the past year. By contrast, a year ago in July 2016, the 12-month change for prices was only 1.0%; in July 2015, it was up a meager 0.3%. In other words, we think inflation is still in a long-term accelerating trend. We expect inflation to inch towards the Fed’s 2% inflation target near year end, which is consistent with the Fed starting balance sheet normalization on October 1 and raising rates one more time in December. In other news this morning, initial jobless claims rose 1,000 to a still low 236,000, while continuing claims fell 12,000 to 1.94 million. Plugging this data into our model suggests tomorrow’s payroll report will show job nonfarm gains of 194,000, which would beat the consensus expected 180,000. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that region, was unchanged in August at a healthy 58.9. As a result, we expect tomorrow’s national ISM Manufacturing index will show a small gain from July.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-17	Jun-17	May-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.0%	0.3%	3.0%	3.5%	2.7%
Disposable (After-Tax) Income	0.3%	0.0%	0.4%	2.9%	3.4%	2.7%
Personal Consumption Expenditures (PCE)	0.3%	0.2%	0.2%	3.2%	3.4%	4.2%
Durables	0.6%	0.6%	0.2%	5.8%	5.5%	3.7%
Nondurable Goods	0.5%	-0.3%	-0.3%	-0.3%	0.3%	3.5%
Services	0.2%	0.3%	0.4%	3.8%	4.1%	4.4%
PCE Prices	0.1%	0.0%	-0.1%	0.3%	0.3%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.2%	1.0%	1.4%
Real PCE	0.2%	0.2%	0.3%	2.8%	3.1%	2.7%

Source: Bureau of Economic Analysis