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August Personal Income and Consumption

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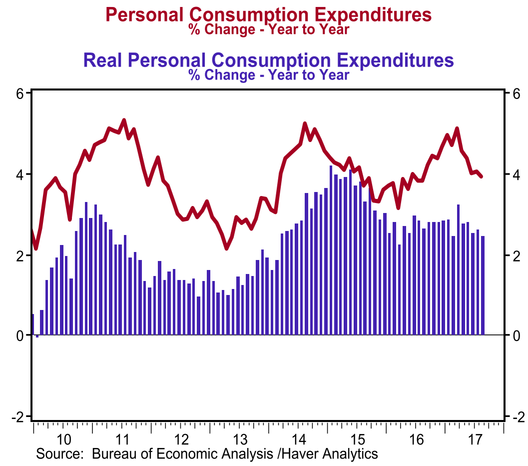
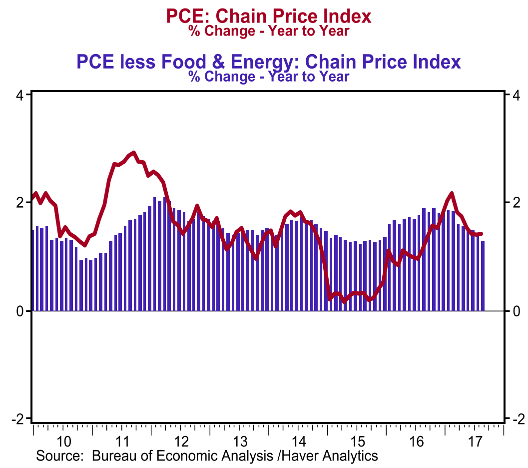
- Personal income rose 0.2% in August (+0.1% including revisions to prior months), matching consensus expectations. Personal consumption increased 0.1% (unchanged including prior month revisions), also matching consensus. Personal income is up 2.8% in the past year, while spending is up 3.9%.
- Disposable personal income (income after taxes) rose 0.1% in August and is up 2.7% from a year ago. The gain in August was led by government transfers.
- The overall PCE deflator (consumer inflation) rose 0.2% in August and is up 1.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.1% in August and is up 1.3% in the past year.
- After adjusting for inflation, "real" consumption declined 0.1% in August but is up 2.5% from a year ago.





Implications: Incomes continued to grow in August, but not for the best reasons, with government transfer payments leading the way. Private-sector wages and salaries were unchanged for the month. However, we think these figures were affected by Hurricane Harvey hitting Texas late in the month, with the storm likely holding down job growth (and therefore worker pay), while also temporarily boosting government checks like FEMA disaster assistance payments. In the past year, personal income is up 2.8% overall while government benefits are up 2.7%. Once the economy clears the effects of Harvey and Irma we expect faster growth in income with a healthier mix, tilted more toward the private-sector. In the meantime, the storms are having an influence on consumer spending, too, with personal consumption growing a tepid 0.1% in August. However, early signs are that auto sales rebounded sharply in September despite Hurricane Irma, signaling a swift rebound in overall consumer spending growth, as well. Stories about problems with the consumer are way overblown. Although consumer debts are at a record high in raw dollar terms, 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 35 years. On the inflation front, the overall PCE deflator rose 0.2% in August and is up 1.4% in the past year. By contrast, a year ago in August 2016, the 12-month change for prices was 1.1%; in August 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's start of balance sheet normalization and signaling that they plan to raise rates one more time in December. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that region, surged in September to a very healthy 65.2. Plugging this into our model along with other recent data, we expect Monday's national ISM Manufacturing index to show continued robust growth for September.

Personal Income and Spending *All Data Seasonally Adjusted*	Aug-17	Jul-17	Jun-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.2%**	0.3%	0.0%	2.2%	2.6%	2.8%
Disposable (After-Tax) Income	**0.1%**	0.2%	0.0%	1.3%	2.6%	2.7%
Personal Consumption Expenditures (PCE)	**0.1%**	0.3%	0.1%	2.4%	3.3%	3.9%
Durables	**-1.1%**	1.1%	0.2%	0.7%	2.3%	3.5%
Nondurable Goods	**0.3%**	0.2%	-0.4%	0.4%	1.0%	3.1%
Services	**0.3%**	0.2%	0.3%	3.3%	4.2%	4.3%
PCE Prices	**0.2%**	0.1%	0.0%	1.4%	0.5%	1.4%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.1%	1.3%	0.9%	1.3%
Real PCE	**-0.1%**	0.2%	0.1%	1.0%	2.8%	2.5%

Source: Bureau of Economic Analysis