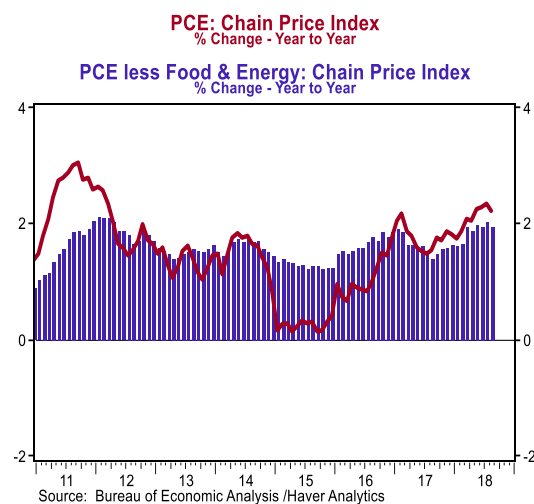
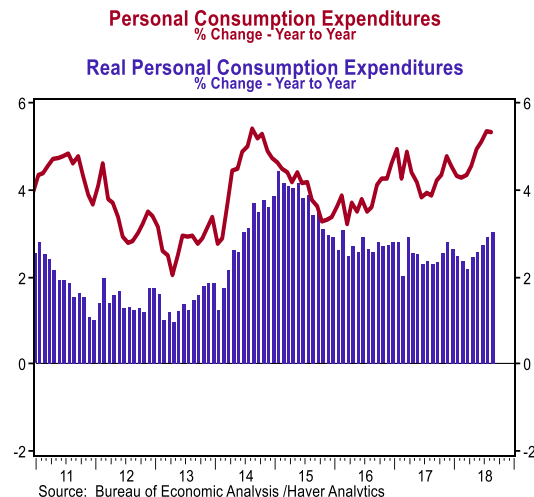


August Personal Income and Consumption

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- Personal income rose 0.3% in August, narrowly lagging the consensus expected 0.4%. Personal consumption also increased 0.3% in August, matching consensus expectations. Personal income is up 4.7% in the past year, while spending is up 5.3%.
- Disposable personal income (income after taxes) rose 0.3% in August and is up 5.2% from a year ago. The gain in August was led by private-sector wages and salaries.
- The overall PCE deflator (consumer prices) rose 0.1% in August and is up 2.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in August but is up 2.0% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in August is up 3.0% from a year ago.

Implications: A strong labor market and higher take-home pay continue to boost consumers, and there is little sign this trend will slow any time soon. Private-sector wages and salaries led the gains to income, rising 0.5% in August and are up a healthy 5.3% in the past year. Total private sector wages and salaries have expanded from \$7.266 trillion in December 2017 to \$7.531 trillion in August—meaning working Americans are taking home \$264.8 billion more in annual income after the tax cut. As a result, total personal income is up 4.7% in the past year, an acceleration from the 4.5% gain for the twelve months ending August 2017 (and 1.9% for the twelve months ending August 2016). Meanwhile, disposable (after-tax) income, which also shows the benefit to consumers from the tax cuts, is up 5.2% over the past year. On the spending side, personal consumption increased 0.3% in August and is up 5.3% in the past year, led higher by purchases of nondurable goods (think things like food and clothing) and health care. While consumption growth has trended moderately above income growth over the past few years, this follows a period between 2010 and 2015 where income growth outpaced the growth in spending. As a result, consumer balance sheets still remain very healthy, with plenty of room for higher spending in the months ahead. One piece of negative news in today’s report was that government transfers grew 0.4% in August. That said, they continue to grow at a slower pace than private sector wages. So, while government transfers are up 4.1% in the past year, transfer payments are making up a smaller – though still too high – portion of income. On the inflation front, the PCE deflator rose 0.1% in August and is up 2.2% in the past year. Meanwhile, “core” prices, which exclude food and energy, are up 2.0% in the past year. In other words, all major measures of inflation continue to run at or above the Fed’s 2% target. As a result, a December rate hike is highly likely and we continue to anticipate four rate hikes in 2019. On the manufacturing front, the Chicago PMI, which measures manufacturing sentiment in that region, fell to a still healthy 60.4 in September from 63.6 in August. Look for another strong reading of about 60.4 for next week’s national ISM Manufacturing report, showing robust growth in the factory sector. In recent housing news, pending home sales (contracts on existing homes) declined 1.8% in August following a 0.8% decline in July. These reports suggest existing home sales, counted at closing, will move modestly lower in September.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-18	Jul-18	Jun-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.3%	0.4%	4.2%	4.2%	4.7%
Disposable (After-Tax) Income	0.3%	0.3%	0.4%	4.2%	4.4%	5.2%
Personal Consumption Expenditures (PCE)	0.3%	0.5%	0.4%	5.0%	6.0%	5.3%
Durables	-0.1%	0.5%	-0.1%	1.1%	6.6%	4.9%
Nondurable Goods	0.5%	0.5%	0.1%	4.6%	5.9%	5.7%
Services	0.4%	0.4%	0.6%	5.7%	6.0%	5.3%
PCE Prices	0.1%	0.1%	0.1%	1.4%	1.7%	2.2%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.2%	0.1%	1.3%	1.8%	2.0%
Real PCE	0.2%	0.3%	0.3%	3.5%	4.2%	3.0%

Source: Bureau of Economic Analysis