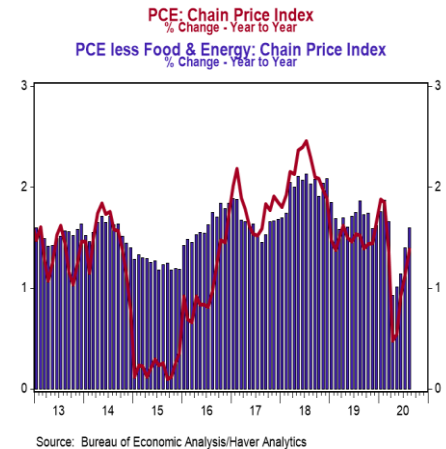
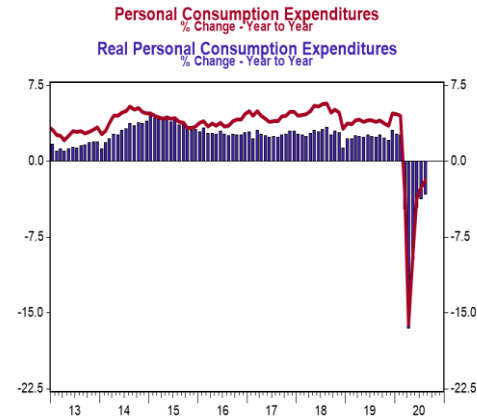


## August Personal Income and Consumption

Brian S. Wesbury – Chief Economist  
Robert Stein, CFA – Dep. Chief Economist  
Strider Elass – Senior Economist

- Personal income declined 2.7% in August, slightly weaker than the consensus expected decline of 2.5%. Personal consumption rose 1.0% in August (+1.2% including prior month revisions), beating the consensus expected gain of 0.8%. Personal income is up 4.7% in the past year, while spending has declined 1.9%.
- Disposable personal income (income after taxes) fell 3.2% in August, but is up 5.4% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in August and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.3% in August and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption increased 0.7% in August, but is down 3.2% from a year ago.

**Implications:** Incomes fell and spending rose as August continued the path back towards “normal.” The move lower in overall income was not as bad as it seems, as rising private-sector wages and salaries were more than offset by a decline in unemployment benefits. Income growth through government transfer payments is not a sustainable path to economic recovery and a shift back toward employment as a source of income is exactly what you would expect as the U.S. continues down the path of reopening. Outside of government transfer payments, personal income rose by 1.2% in August, which should come as little surprise given the increase of 1.4 million jobs in August. Spending rose once again in August and is up 9.1% over the past three months. After spending declined by nearly 19% in March and April, it now stands a more modest 3.4% below February levels, and is down 1.9% in the past year. The increase in spending in August was led by services, as health care, food services, and accommodations once again were key drivers. Spending on goods – up 0.2% in August – continues to be driven higher by motor vehicle sales, up 2.0% in August. While spending across the major categories was mixed, a few highlights from the August report include spending on meals at schools (+302.3%), movie theatres (+142.7%), and railway transportation (+66.5%). With spending rising while income fell, the saving rate declined to a (still elevated) 14.1% in August. This is down from 33.6% back in April, but still well above “normal” levels. On the inflation front, PCE prices rose 0.3% in August and are up 1.4% from a year ago. Core prices, which exclude food and, more importantly, the very volatile energy component, also rose 0.3% in August, and are up 1.6% from a year ago. Both PCE prices and the core measure are accelerating of late, up at 4.9% and 4.5% annualized rates, respectively, over the past three months. We expect inflation will continue to trend higher in the months ahead, moving toward – and then above – the 2% year-to-year pace that historically stood as the Fed’s target, though the Fed has recently changed their target to allow inflation to run above trend for a prolonged period of time without pressuring them to lift the federal funds rate. In other words, don’t expect the faster pace of inflation to mean that monetary policy will be tightening any time soon. In other news this morning, initial jobless claims fell 36,000 last week at 837,000. Meanwhile, continuing claims for regular benefits fell 980,000 to 11.767 million. Plugging this data into our models suggests tomorrow’s employment report will show nonfarm payrolls rose by 1.073 million in September, and the unemployment rate declined to 8.0%. Job gains have been uneven across the country, as states like California and New York continue tighter restrictions and, not surprisingly, represent 33% of all people receiving unemployment benefits. A sustainable recovery can’t rely on stimulus to move us forward, it [requires reopening](#).



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-20	Jul-20	Jun-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	-2.7%	0.5%	-1.2%	-13.0%	4.0%	4.7%
<b>Disposable (After-Tax) Income</b>	-3.2%	0.3%	-1.5%	-16.2%	5.7%	5.4%
<b>Personal Consumption Expenditures (PCE)</b>	1.0%	1.5%	6.5%	41.9%	-6.7%	-1.9%
<b>Durables</b>	0.9%	2.2%	8.9%	59.0%	25.5%	12.1%
<b>Nondurable Goods</b>	-0.1%	1.0%	5.5%	28.5%	4.8%	2.6%
<b>Services</b>	1.4%	1.6%	6.3%	43.7%	-14.3%	-5.4%
<b>PCE Prices</b>	0.3%	0.4%	0.5%	4.9%	1.1%	1.4%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.3%	0.4%	0.3%	4.5%	1.6%	1.6%
<b>Real PCE</b>	0.7%	1.1%	5.9%	35.3%	-7.7%	-3.2%

Source: Bureau of Economic Analysis