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July Personal Income and Consumption

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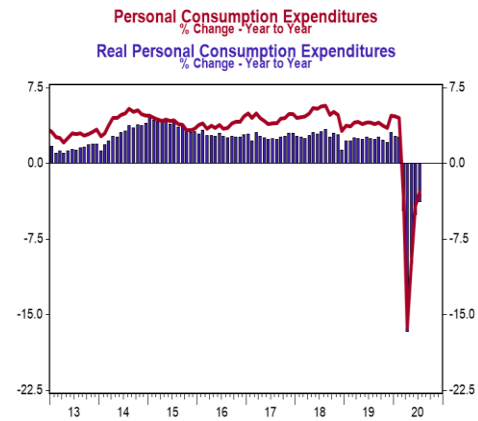
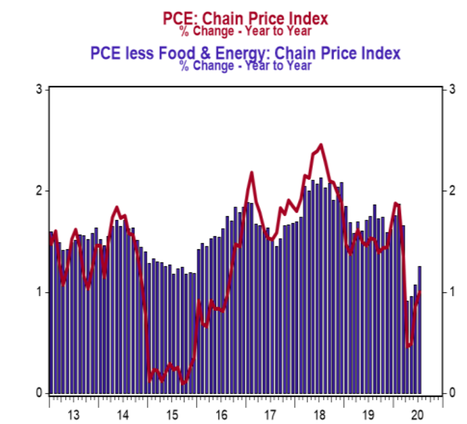
- Personal income rose 0.4% in July (+0.8% including revisions to prior months), easily beating the consensus expected decline of 0.2%. Personal consumption rose 1.9% in July (+2.5% including prior month revisions), beating the consensus expected gain of 1.6%. Personal income is up 8.2% in the past year, while spending has declined 2.8%.
- Disposable personal income (income after taxes) rose 0.2% in July and is up 9.5% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in July and is up 1.0% versus a year ago. The "core" PCE deflator, which excludes food and energy, also rose 0.3% in July and is up 1.3% in the past year.
- After adjusting for inflation, "real" consumption increased 1.6% in July, but is down 3.8% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Implications: Rising income paired with a pickup in spending in July, comfortably beating expectations in a report where the details are even better than the already impressive headline readings. The move higher in income came as rising private sector wages and salaries more than offset a decline in government transfer payments. In other words, the data improved as the economy continued to move further into reopening. Outside of government transfer payments, personal income rose by 0.9% in July, which should come as little surprise given the increase of 1.8 million jobs in July. Spending followed suit, up 1.9% in July after historically large increases in May and June. The increase in spending on services was led by health care, food services, and accommodations. Spending on goods was led by motor vehicle sales, up 19.1% in July. While spending rose across most major categories, a few highlights from the July report include spending on spectator sports (+2800.0%), casino gambling (+40.7%), air transportation (+38.6%), and hotels and motels (+23.5%). And while the return to spending through the recovery has been uneven, with areas like autos, food, housing, and recreational goods up from both year ago levels and where they stood back in February, the above-mentioned categories that saw large gains in July remain well off prior highs. This data helps explain why a company like MGM is laying off 18,000 furloughed workers and American Airlines has announced plans to cut 19,000 jobs in October, while companies like Home Depot and Amazon are announcing the expansion of distribution centers and adding to their payrolls. With spending rising more than income, the saving rate declined to a (still very elevated) 17.8% in July. This is down from 33.7% back in April, but still well above "normal" levels. The next few months will continue to see the numbers muddled by the extraordinary measures taken in response to COVID-19, but what is clear is that the economy has turned the corner and the recovery process is under way. On the inflation front, PCE prices rose 0.3% in July and are up 1.0% from a year ago. Core prices, which exclude food and, more importantly, the very volatile energy component, also rose 0.3% in July, and are up 1.3% from a year ago. We expect inflation will continue to trend higher in the months ahead, moving toward – and then above – the 2% pace that has historically stood as the Fed's target. But don't expect that to mean that monetary policy will be tightening any time soon. The Fed announced yesterday a shift in the inflation targeting process to make abundantly clear that inflation can run above the long-term target for at least a little while before it will raise rates. In other news this morning, the Chicago PMI remained in expansion territory in August, but declined to a reading 51.2 from 51.9 in July. This comes on the heels of yesterday's report from the Kansas City Fed which showed activity in that region rose, pushing the manufacturing index to 14 in August from 3 in July. Plugging this into our models suggests the national ISM index, reported next Tuesday, will show a rise to about 54.7 for August from 54.2 for July. In other recent news, pending home sales, which are contracts signed on existing homes, increased 5.9% in July, suggesting that strong gains in existing home closings continued in August.

Personal Income and Spending *All Data Seasonally Adjusted*	Jul-20	Jun-20	May-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	-1.0%	-4.2%	-17.9%	11.6%	8.2%
Disposable (After-Tax) Income	**0.2%**	-1.3%	-4.8%	-21.5%	14.5%	9.5%
Personal Consumption Expenditures (PCE)	**1.9%**	6.2%	8.6%	90.6%	-8.9%	-2.8%
Durables	**3.1%**	9.0%	29.2%	343.9%	23.4%	12.6%
Nondurable Goods	**1.4%**	5.6%	7.7%	77.3%	5.5%	3.3%
Services	**1.9%**	5.9%	5.8%	69.7%	-17.4%	-7.0%
PCE Prices	**0.3%**	0.5%	0.1%	3.8%	0.4%	1.0%
"Core" PCE Prices (Ex Food and Energy)	**0.3%**	0.3%	0.2%	3.4%	0.9%	1.3%
Real PCE	**1.6%**	5.7%	8.4%	83.6%	-9.3%	-3.8%

Source: Bureau of Economic Analysis