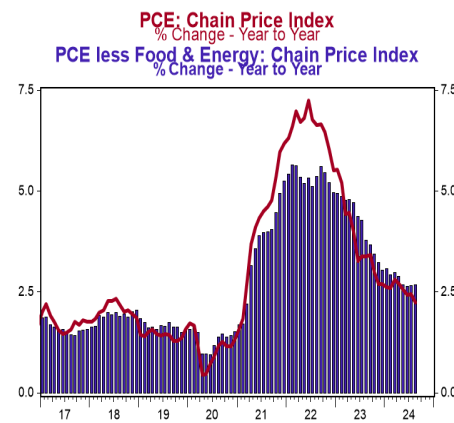


## August Personal Income and Consumption

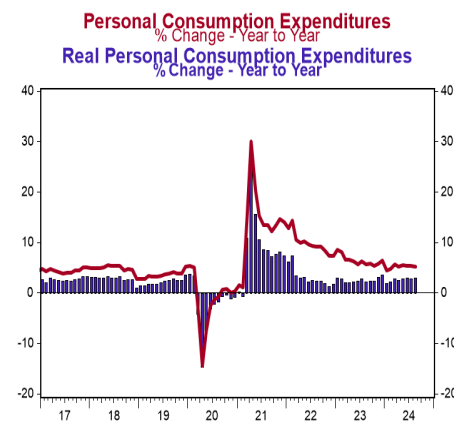
Andrew Opdyke, CFA – Senior Economist  
 Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Dep. Chief Economist

- Personal income rose 0.2% in August, lagging the consensus expected 0.4%. Personal consumption also rose 0.2% in August, falling short of the consensus expected 0.3%. Personal income is up 5.6% in the past year, while spending has increased 5.2%.
- Disposable personal income (income after taxes) rose 0.2% in August and is up 5.4% from a year ago.
- 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, also rose 0.1% in August and is up 2.7% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in August and is up 2.9% from a year ago.

**Implications:** Before we dive into incomes and spending, today’s report includes the Fed’s preferred measure of inflation. PCE prices rose 0.1% in August and are up 2.2% in the past year compared to a 3.4% gain in the year ending in August 2023. “Core” prices, which exclude the ever-volatile food and energy categories, also rose 0.1% in August and are up 2.7% versus a year ago, a notable improvement from the 3.8% reading for the twelve months ending August 2023. The slowing in the pace of inflation in the past year — prices are still going up but at a slower rate — reflects the tightening of monetary policy in 2023-24. And given that policy is still tight, although not as tight as previously given the Fed’s 50 basis point cut in short-term rates last week, inflation should continue to decline in the year ahead. In turn, this should give the Fed additional room for making monetary policy less tight in the months ahead. Meanwhile, the economy continues to grow. Personal income rose 0.2% in August and is up 5.6% in the past year. Private-sector wages and salaries led the way, up 0.5% on the month and up 6.3% in the past year. Unfortunately government activity continues to run hot as well, as government pay rose 0.4% in August and is up 6.6% in the past year, hovering near the largest twelve-month increase in decades. We don’t think the growth in government pay – or massive government deficit spending – is sustainable or good for the US economy. Consumer spending rose 0.2% in August, led by outlays on services which rose 0.4% on the month and are up 6.8% in the past year. Goods spending dipped 0.1% in August but is up 1.8% from a year ago. When adjusting for inflation, consumption rose a modest 0.1% in August. We are closely watching the service sector as the driver of consumer activity both now and in the near future, and we expect activity to temper as interest rates – declining but still elevated – and continued inflation pressure take a toll. In other recent news, the Kansas City Fed Manufacturing Index, a measure of factory activity in that region, fell to -8 in September from -3 in August. On the housing front, pending home sales, which are contracts on existing homes, rose 0.6% in August following a 5.5% decline in July. Plugging these figures into our model suggests existing home sales, which are counted at closing, will remain weak in September.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Aug-24	Jul-24	Jun-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.2%</b>	0.3%	0.3%	2.9%	4.3%	5.6%
<b>Disposable (After-Tax) Income</b>	<b>0.2%</b>	0.2%	0.2%	2.4%	3.9%	5.4%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.2%</b>	0.5%	0.3%	4.1%	5.1%	5.2%
<b>Durables</b>	<b>-0.2%</b>	1.1%	-0.3%	2.3%	3.3%	1.5%
<b>Nondurable Goods</b>	<b>-0.1%</b>	0.8%	-0.1%	2.5%	4.4%	2.0%
<b>Services</b>	<b>0.4%</b>	0.3%	0.4%	4.9%	5.5%	6.8%
<b>PCE Prices</b>	<b>0.1%</b>	0.2%	0.1%	1.5%	1.9%	2.2%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.2%	0.2%	2.1%	2.4%	2.7%
<b>Real PCE</b>	<b>0.1%</b>	0.4%	0.1%	2.6%	3.1%	2.9%

Source: Bureau of Economic Analysis