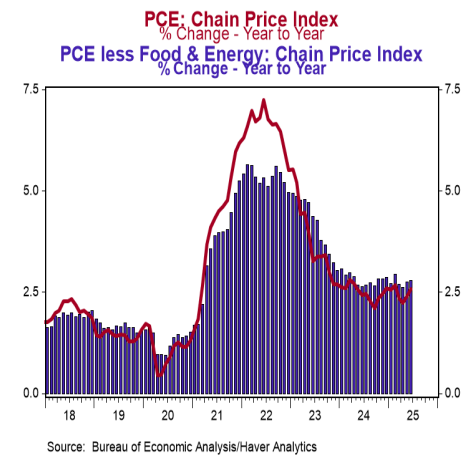
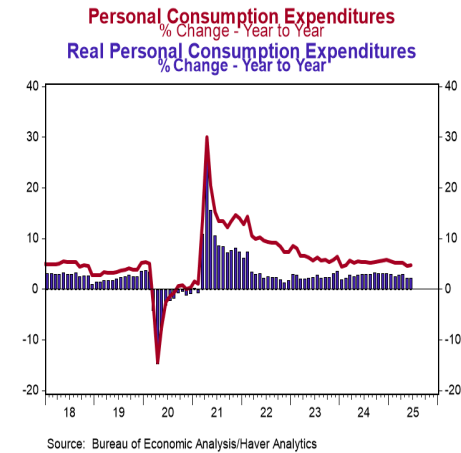


June Personal Income and Consumption

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- Personal income rose 0.3% in June (+0.4% including revisions to prior months), beating the consensus expected +0.2%. Personal consumption increased 0.3% (+0.4% including revisions to prior months), versus a consensus expected +0.4%. Personal income and spending are both up 4.7% in the past year.
- Disposable personal income (income after taxes) rose 0.3% in June and is up 4.3% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in June and is up 2.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, also increased 0.3% in June and is up 2.8% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in June and is up 2.1% from a year ago.

Implications: Consumers started the summer on a healthy note, with both income and spending rising 0.3% in June. Unfortunately, the news on the income side is not as strong as the headline appears. Private-sector wages and salaries rose a meager 0.1% in June – the smallest monthly increase in close to a year – although they are up 4.7% in the past year. The largest driver of income gains in June was once again government transfer payments, up 1.0%, as a rise in social security payments led the category, while government sector wages and salaries increased 0.6% in June and are up 5.5% from a year ago. These government led drivers are not reliable (or desirable) long-term sources of income, so while incomes rose in June, the mix of where that spending power came from was weak. What was more constructive was the 0.3% rise in personal consumption, where spending on goods rose 0.5% while services spending increased 0.3%. This may reflect tariff impacts on goods prices, but as we have noted in other pieces on inflation, higher consumer spending in some categories is largely being offset by declines in other categories, and inflation has shown little net movement in response to the tariffs. PCE prices, the Fed's preferred inflation metric did run a little hot in June, up 0.3%, and the year ago reading rose to 2.6% from 2.4% in May, but that largely reflects weak inflation readings from this time last year rolling off the books. The six-month annualized change in PCE prices has been trending lower and with M2 growth running below the historical 6% rate, we believe inflation will continue to diminish in the months ahead. We believe that the Fed should have restarted the rate cut process yesterday, but now we must wait and see how the economic data, both inflation and employment, progress between now and September. In other recent news on the employment front, initial claims for unemployment insurance rose 1,000 last week to 218,000. Continuing claims were unchanged at 1.946 million. These figures are consistent with our expectation that tomorrow's employment report will show around 132,000 nonfarm jobs created in July. On the housing front, pending home sales, which are contracts on existing homes, declined 0.8% in June following a 1.8% rise in May, suggesting existing home sales (counted at closing) will be roughly unchanged in July. Finally on the manufacturing front, the Chicago Purchasing Managers Index (PMI) rose to 47.1 in July from 40.4 in June, signaling activity continues to contract, but at a slower pace than prior months.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jun-25	May-25	Apr-25	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	-0.4%	0.8%	2.8%	5.3%	4.7%
Disposable (After-Tax) Income	0.3%	-0.5%	0.8%	2.3%	4.9%	4.3%
Personal Consumption Expenditures (PCE)	0.3%	0.0%	0.2%	2.1%	2.7%	4.7%
Durables	0.0%	-1.7%	0.2%	-5.9%	-2.7%	4.5%
Nondurable Goods	0.7%	-0.2%	0.0%	2.0%	1.7%	3.1%
Services	0.3%	0.3%	0.3%	3.4%	3.9%	5.3%
PCE Prices	0.3%	0.2%	0.2%	2.5%	2.9%	2.6%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.2%	0.2%	2.6%	3.2%	2.8%
Real PCE	0.1%	-0.2%	0.1%	-0.4%	-0.1%	2.1%

Source: Bureau of Economic Analysis