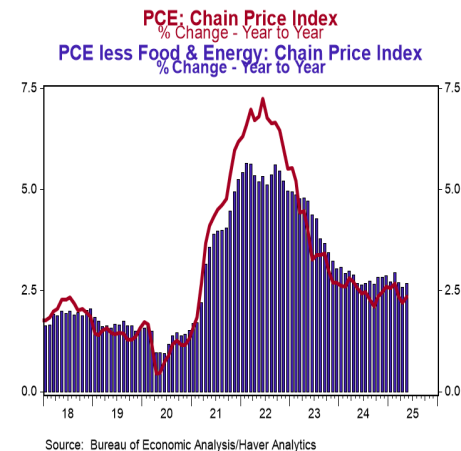
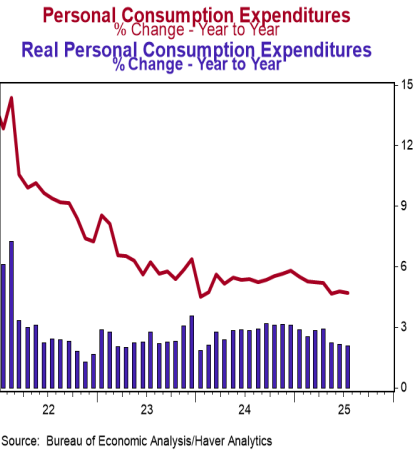


July Personal Income and Consumption

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- Personal income rose 0.4% in July, matching consensus expectations. Personal consumption increased 0.5% (+0.6% including revisions to prior months), also matching consensus expectations. Personal income is up 5.0% in the past year, while spending has increased 4.7%.
- Disposable personal income (income after taxes) rose 0.4% in July and is up 4.6% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in July and is up 2.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.3% in July and is up 2.9% in the past year.
- After adjusting for inflation, “real” consumption rose 0.3% in July and is up 2.1% from a year ago.

Implications: It’s been a strong summer for consumers. Following healthy growth in June, both income and spending accelerated in July, rising 0.4% and 0.5%, respectively. And the best news on the income front is that growth was led by private-sector wages and salaries, which rose 0.7% in July. This is a welcome shift from the trend throughout the early parts of 2025 when government transfer payments – which are not a reliable (or desirable) long-term source of income – were the key contributor to growth. After rising by 1.0% or more in five of the first six months this year, these transfer payments were flat in July. One month does not make a trend, so we will watch these numbers closely in the back half of year to see if the quality of growth continues to improve. On the spending front, personal consumption rose 0.5% in July with broad based growth. Spending on goods jumped 0.8% led by outlays on motor vehicles and parts as well as food & beverages. Services spending rose 0.4% with financial services & insurance and housing & utilities increasing the most. Some of the increases 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. Case in point, PCE prices, the Fed’s preferred inflation metric rose 0.2% July while the year ago reading stayed at 2.6%. That 2.6% pace in the past twelve months is almost identical to the annualized rates over the past 3 and 6-month periods. In other words, there has been no acceleration in prices since tariffs ramped up, but they haven’t eased either. With M2 growth running below the historical 6% rate, we believe inflation will diminish in the year ahead. The Fed looks almost certain to cut rates at their meeting mid-September, and we anticipate a second cut before the year is through. In other recent news on the housing front, pending home sales, which are contracts on existing homes, declined 0.4% in July following a 0.8% drop in June, suggesting existing home sales (counted at closing) will move lower in July. On the manufacturing front, the Kansas City Fed Manufacturing Index, a measure of factory sentiment in that region, remained at +1 in August, while the Chicago Purchasing Managers Index (PMI) – where readings above 50 signal growth – declined to 41.5 in August from 47.1 in July, signaling activity in that region continues to contract.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Jul-25	Jun-25	May-25	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.3%	-0.4%	1.4%	5.1%	5.0%
Disposable (After-Tax) Income	0.4%	0.3%	-0.5%	0.8%	4.9%	4.6%
Personal Consumption Expenditures (PCE)	0.5%	0.4%	0.0%	3.6%	4.3%	4.7%
Durables	1.9%	-0.8%	-1.7%	-2.4%	7.7%	4.4%
Nondurable Goods	0.1%	0.9%	0.0%	4.5%	2.4%	2.9%
Services	0.4%	0.4%	0.2%	4.2%	4.3%	5.3%
PCE Prices	0.2%	0.3%	0.2%	2.6%	2.5%	2.6%
"Core" PCE Prices (Ex Food and Energy)	0.3%	0.3%	0.2%	3.0%	3.0%	2.9%
Real PCE	0.3%	0.1%	-0.2%	0.9%	1.8%	2.1%

Source: Bureau of Economic Analysis