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July Personal Income and Consumption

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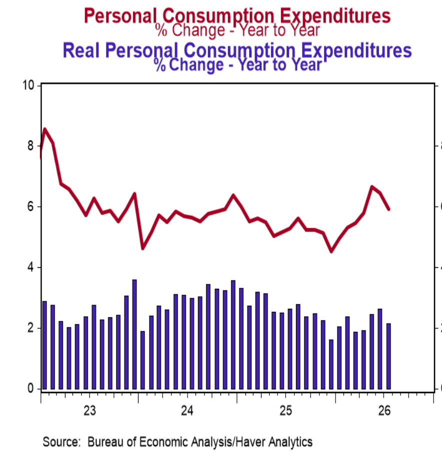
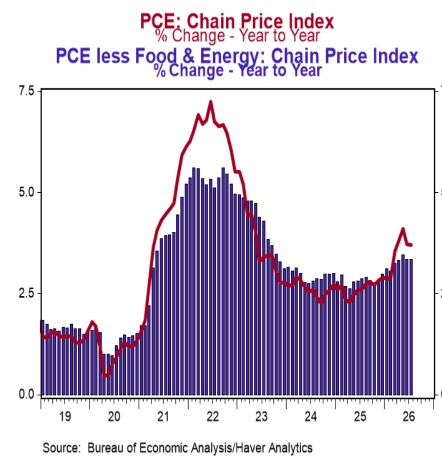
- Personal income rose 0.4% in July, beating the consensus expected +0.2%. Personal consumption increased 0.2% (+0.3% including revisions to prior months), versus a consensus expected +0.1%. Personal income is up 3.7% in the past year, while spending has increased 5.9%.
- Disposable personal income (income after taxes) rose 0.5% in July (+0.6% including revisions) and is up 4.2% from a year ago.
- The overall PCE deflator (consumer prices) increased 0.2% in July and is up 3.7% versus a year ago. The "core" PCE deflator, which excludes food and energy, also rose 0.2% in July and is up 3.3% in the past year.
- After adjusting for inflation, "real" consumption was unchanged in July (+0.1% including revisions) and is up 2.1% from a year ago.





Implications: Consumers started the second half of 2026 on healthy footing, with income rising 0.4% in July and spending up 0.2%. Starting with income, growth was led by private sector wages and salaries which rose 0.3% (up 3.8% in the past year) and government transfer payments which were up 0.6% in July (+5.1% from a year ago). While the 3.8% increase in private sector wages over the past year sounds decent on paper, remember that inflation is up 3.7% over the same period, meaning consumers' purchasing power is virtually unchanged. On the spending side, personal consumption rose 0.2% in July, led by financial services and health care, which were partially offset by a decline in spending on gasoline. Collectively, goods spending (which includes energy costs) fell 0.7% in July, while spending on services increased 0.6%. The personal saving rate — which tracks how much after-tax income is not consumed — rose to 3.0% in July but remains near the lowest readings since the COVID-era in 2022 (and before that during the Great Financial Crisis in 2008!). This low level of saving allows for more spending today but isn't sustainable long-term. The area of today's report that will get the most attention from the Fed is the latest reading on inflation. PCE prices – the Fed's preferred inflation metric – rose 0.2% in July, while the year-ago reading remained at 3.7%. "Core" prices, which strip out the volatile food and energy categories, also rose 0.2% in July, with the year-ago comparison now at 3.3%, a notable uptick from the 2.9% pace for the twelve-months ending in July 2025. The Fed will be watching the data closely while trying to determine how monetary policy – which operates with a lag – should respond as inflation remains stubbornly above their 2.0% inflation target. We wish the Fed would pay more attention to the M2 measure of the money supply, which rose 0.4% in July and is up 5.4% from a year ago. That is still below the historical growth rate of about 6%, but worth watching closely in the months ahead for signs of any acceleration. Recent discussion around the Treasury potentially using funds from the Treasury General Account (TGA) to support bond market liquidity for long duration treasuries could lead to a pickup in M2 growth if implemented. As things currently stand, we expect the Fed will remain on pause for the foreseeable future as they wait for the fog to clear and a better picture of sustained inflation pressures to come into view.

Personal Income and Spending *All Data Seasonally Adjusted*	Jul-26	Jun-26	May-26	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	0.2%	0.7%	5.3%	3.8%	3.7%
Disposable (After-Tax) Income	**0.5%**	0.2%	0.7%	6.0%	4.0%	4.2%
Personal Consumption Expenditures (PCE)	**0.2%**	0.3%	0.9%	5.6%	7.3%	5.9%
Durables	**-1.0%**	0.8%	1.1%	3.3%	10.7%	4.4%
Nondurable Goods	**-0.6%**	-0.5%	0.5%	-2.1%	8.2%	5.4%
Services	**0.6%**	0.5%	0.9%	8.3%	6.6%	6.3%
PCE Prices	**0.2%**	-0.1%	0.5%	2.2%	4.1%	3.7%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.1%	0.4%	3.0%	3.5%	3.3%
Real PCE	**0.0%**	0.4%	0.4%	3.3%	3.1%	2.1%

Source: Bureau of Economic Analysis