



Economics Group

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Personal Income and Spending Steady as Q3 Begins

Personal income increased an expected 0.4 percent in July and was upwardly revised from 0.2 percent to 0.3 percent in June. Personal spending was also strong in July, up 0.3 percent, after an upward revision to June.

Personal Income In Driver's Seat

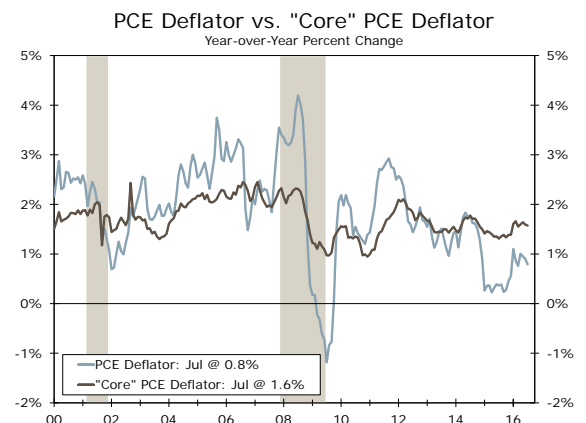
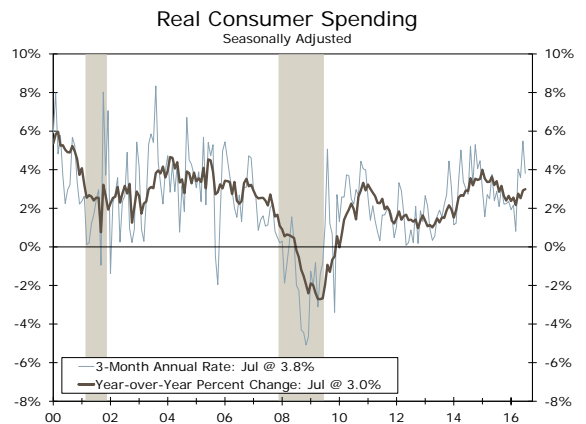
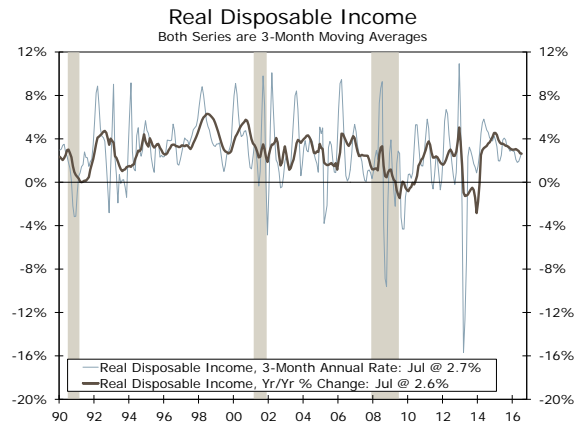
Personal income improved 0.4 percent during the first month of the third quarter to provide a good starting point to the quarter. Income was upwardly revised to 0.3 percent versus an original print of 0.2 percent in June. Meanwhile, disposable personal income also increased 0.4 percent during the month after an increase of 0.3 percent in June. Since PCE inflation was 0.0 percent in July that meant that real disposable personal income was also up 0.4 percent during the month. Personal income and disposable personal income numbers, both in nominal as well as in real terms, were also revised higher in May, painting a slightly better picture of the conditions of U.S. income even as growth in this variable has weakened over the past several quarters.

Income in goods-producing industries was up \$10 billion in July compared to a decline of \$2.9 billion in June. This increase was mostly driven by an increase of \$6.9 billion in wages and salaries in the manufacturing industry after a drop of \$0.5 billion in June. Another important contributor to July's increase in personal income was an increase of \$7.2 billion in personal income receipts on assets. Each of its components, personal interest income as well as personal dividend income, increased \$3.6 billion in the month. Personal interest income increased \$2.7 billion in June, but personal dividend income declined by \$6.3 billion. Also important to July's improvement in personal income was a very strong increase in personal current transfer receipts, which increased \$12 billion after increasing only \$2.6 billion in June. Social security transfers as well as Medicaid transfers contributed the most to this result in July.

Personal Spending Still Relatively Strong

Personal spending continued to improve at the beginning of the third quarter. July's personal spending increased 0.3 percent after an upwardly revised 0.5 percent in June. In real terms, personal spending also increased 0.3 percent after an upwardly revised 0.4 percent in the month of June. These revisions confirm the upwardly revised real personal consumption expenditures (PCE) number within the GDP release that put PCE up 4.4 percent during the second quarter of the year and points to a still relatively strong print for PCE for the third quarter. Even with the strong start to Q3, we are still expecting PCE to come in weaker in the third quarter than the strong pace in the second quarter.

However, all these numbers will make the Federal Reserve's September and December decision on rates a little bit more difficult as they continue to show a relatively strong income and consumption performance. Perhaps what is missing for the Federal Reserve is what is not happening in the rest of the components of GDP, that is, net exports, investment and government expenditures.



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