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Economics Group

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Personal Income Was Largely Unchanged In June

Personal income and consumer spending were unchanged in June. Prices declined 0.1 percent, however, which means spending rose slightly after adjusting for falling prices. The saving rate rose to 6.4 percent.

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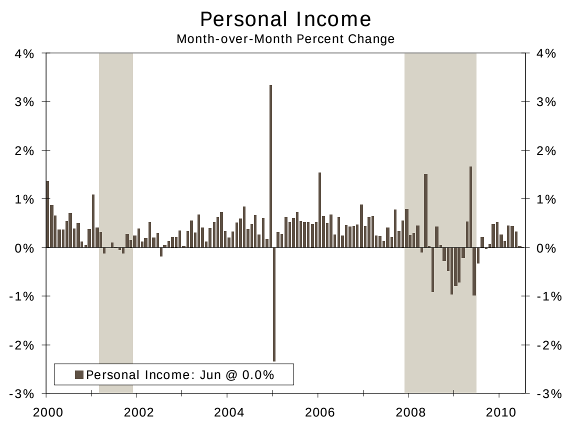
Personal income was unchanged in June, with weakness evident across most major categories. Wages and salaries fell 0.1 percent and proprietors' income fell 0.4 percent. Nearly all the drop in wages and salaries was in the private sector, where wages fell 0.1 percent. June marks the first time personal income has been unchanged since September of last year and is another sign that economic activity is losing momentum as various stimulus programs wind down.

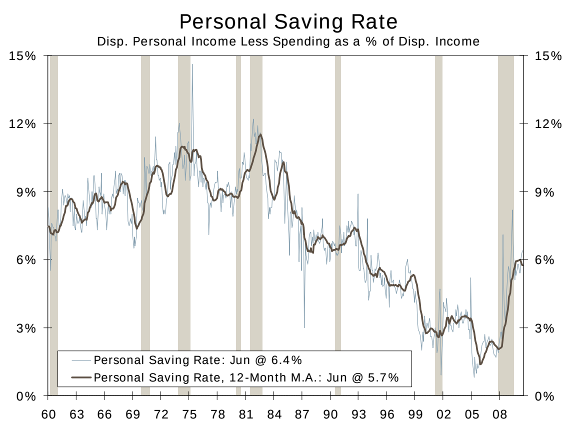
Personal tax payments fell 0.2 percent in June, which helped push after-tax income up slightly. The rise in after-tax income combined with no change in consumer spending pushed the saving rate up to 6.4 percent, which is the highest it has been since May 2009. The rise in the saving rate is good news because it means the adjustment to the negative wealth effect from falling home prices and the financial crisis is largely complete. This means spending will likely rise more closely in line with after-tax income growth over the next few quarters. Unfortunately, income growth appears to be decelerating.

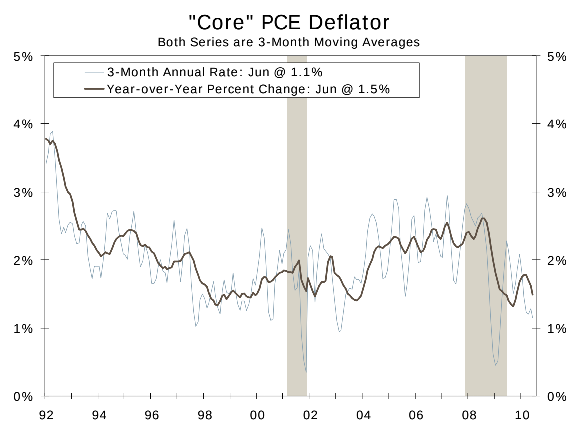
The personal consumption deflator fell 0.1 percent in June, marking the second consecutive decrease. With the drop, real personal income rose 0.1 percent. Real after-tax income actually rose 0.2 percent. The decline in prices helped boost purchasing power and allowed real personal consumption expenditures to rise 0.1 percent in June.

Real personal consumption expenditures ended the second quarter slightly above their second quarter average and are currently running at 0.5 percent annual rate above the second quarter average. Early data for July suggest spending was fairly weak that month. The expiration of extended unemployment benefits likely cut into spending last month. We may get a bit of a bump in August, however, when benefits began flowing again and one-time catch-up payments were delivered. We are expecting real personal consumption expenditures to rise at just a 1.0 percent annual rate during the current quarter, which will likely hold real GDP growth to around a 2 percent annual rate or less.

The core PCE deflator, which is widely thought to be the Fed's preferred inflation measure, was unchanged in June, following gains of 0.1 percent during each of the two previous months. The core PCE deflator has decelerated to just a 1.1 percent annual rate over the past three months. Most of the slowdown is due to still moderating housing costs. Falling food and energy prices have been the major forces holding down overall inflation. Food prices are being held back by an abundant harvest and changing consumer buying habits, which are leading to more price cutting.







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