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Economics Group

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Choppy Spending Pattern Continues

The choppy spending pattern we have observed since the Great Recession ended reaffirmed itself in July, with personal spending increasing by 0.4 percent after no change in June. Personal income was revised down.

Personal Income Revised Down in June

Some of the good news released in June regarding personal income was taken away as the original 0.5 percent increase in that measure was revised down to 0.3 percent. At the same time, personal income for July came in at 0.3 percent, the third consecutive 0.3 percent increase—not bad, but lower than it was during the first quarter of the year. Disposable personal income was also up 0.3 percent during July, as real disposable personal income was similarly up by 0.3 percent, indicating that inflation was very benign during the month. We are expecting this benign inflationary environment to change in August as petroleum prices and gasoline prices take a bite out of both total personal income and disposable personal income.

Overall, wages and salaries increased by 0.2 percent in July compared to a 0.4 percent increase in June. What kept personal income growing at the same rate it did in June were increases in proprietors' income, rental income as well as personal current transfers. At the same time, the increase in personal current taxes was lower in July than what it was in June, helping the disposable personal income measure.

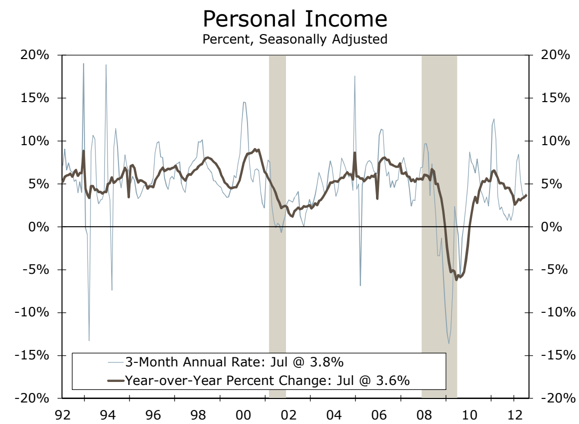
Personal Consumption Expenditures Rebounded

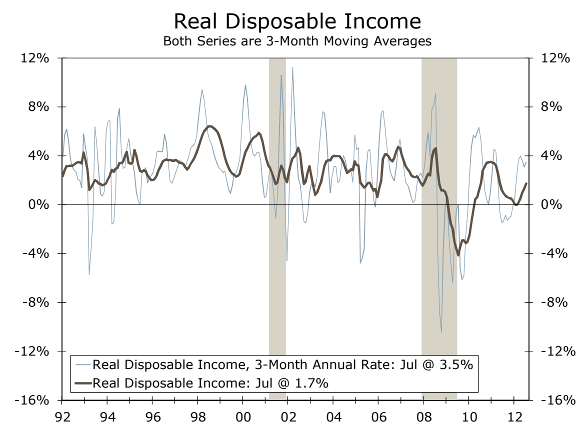
After a flat reading in June and dropping by 0.2 percent in May, personal consumption expenditures increased by a "healthy" 0.4 percent in July. Thus, the choppy spending pattern by U.S. consumers continues. Last month, we speculated that consumers were increasingly saving because they were waiting to spend part of their savings during the end-of-year holidays. But it seems that this was not the case; maybe instead they saved to go on vacation in July before the start of the school semester.

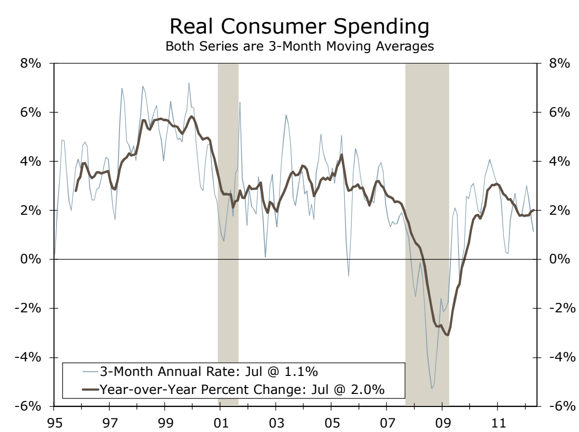
Consumers chose a good month to go out and spend as inflation was benign with the increase in nominal spending, at 0.4 percent, equal to the increase in real spending during the month. This was a far cry from a 0.0 percent change in real personal consumption expenditures in May and a 0.1 percent drop in this measure in June.

At the same time, July's result for personal consumption expenditures bodes well, if sustained, for GDP during the third quarter of the year, as consumption remains the largest component of the economy. However, this increase in personal consumption expenditures may not be sustainable in the future due to the recent increase in gasoline prices and its potential effects on real personal consumption expenditures going forward.

This, together with the drop in consumer confidence for August, may keep consumption range-bound during the third quarter of the year. It is clear that for consumption to show some staying power, we need the jobs and credit situation to improve considerably over the next several quarters.







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