Data Release: Spending and income show strong gains in July

Personal income grew 0.3% in July, on par with market expectations. Adjusted for price changes, real disposable personal income growth also rose 0.3%.

Personal consumption expenditures grew by a robust 0.4% in both nominal and real terms in July. Real spending was strong across all major categories. Durable goods led the way, rising by 1.1%, while spending on non-durable goods rose 0.5% and services spending grew by 0.3%.

The personal consumption deflator was flat in July, rising by just 0.01% on a month-over-month basis. From a year-ago, consumer price inflation fell to 1.3% from 1.5% in June. Excluding food and energy prices, core inflation also fell to 1.6% (from 1.8% in June) on a year-over-year basis.

Key Implications

After cutting back on spending in May and June, households played catch up with a strong gain in July. With the rebound, the stage is set for third quarter spending growth to improve from the 1.7% pace set in the second quarter, which should allow overall economic growth to also accelerate modestly.

After declining through much of 2011, real disposable income growth has rebounded strongly over the past several months. This will provide support to spending in the second half of the year. However, maintaining this growth will require ongoing gains in job creation. Unfortunately, the other indicator to come out today – the weekly jobless claims number – rose to a monthly high and is a cautionary tale that achieving this improvement will be difficult in the midst of considerable economic uncertainty.

The gains in purchasing power have a lot to do with the slowdown in price growth over the last several months, due mainly to falling energy prices. We do not expect price growth to accelerate much over the remainder of the year. However, gasoline prices have rebounded in the last month and rising agricultural commodity prices mean that inflation is likely to rise modestly over the next year.

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