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Personal Income, June 2009



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Personal income fell more than expected in June, while consumption spending increased more than forecast. The decline in personal income was largely the result of the end of one-time government benefits paid in May as part of the fiscal stimulus program, which had increased personal income sharply that month. Excluding these benefits, personal income was little changed in both May and June. Wage and salary income continued to decline. Revisions to prior data show that personal income grew less than previously believed in 2007-08, but more in 2006, and that the savings rate was higher than previously believed for 2006-08. The report confirms our somewhat cautious near-term stance on U.S. household spending as it highlights downward pressures on income that should remain serious until employment begins to revive next year..

- Personal income fell 1.3% in June following a revised 1.3% increase in May (first reported as +1.4%). The mean forecast had been for a decline of 1.3%, with individual forecasts ranging from -1.6% to +1.0%. After-tax income also fell 1.3%, and inflation-adjusted after tax income fell 1.8%. Year-over-year, personal income was down 3.8%, after tax income was down 1.3%, and real after-tax income was down 1.0%. The differences among these year-over-year growth rates illustrate how much households have benefited from tax cuts and price declines over the past year. Neither of these factors, however, is likely to provide much further support to income growth going forward, and each should instead ultimately reverse.
- Wage and salary income fell 0.4%, with both manufacturing and services income falling. Within services, the more cyclical service industries grouped under trade, transportation and utilities saw a steeper decline (-0.8%) than did other service industries (-0.3%). Manufacturing wage income fell 1.0%. Government wages and salaries were up 0.2%, less than the 0.5% average monthly increase seen thus far this year. Wage declines are clearly moderating, however, with the monthly decline in private sector wage and salary income averaging 0.3% in the second quarter vs. 1.2% in the first, and the monthly decline in manufacturing wage and salary income averaging 1.0% in the second quarter vs. 2.0% in the first and nearly 4% (not annualized) in January alone.
- Income from small businesses was down slightly as farm income fell 3.2% and non-farm small business income was unchanged. Non-farm small business income had been falling at a 1% annual rate from November 2008 through this March and appears to be stabilizing; this is important because small businesses are an important source of new hiring.
- Income from financial assets fell 0.4% for the third consecutive month. Dividend income fell 3.4% and was down 24.4% year-over-year, reflecting both dividend cuts and the reduced share of equities in both household and pension portfolios. Interest income rose 0.9%.
- Government benefit payments net of contributions for social insurance fell 10% in June as a variety of special payments resulting from the fiscal stimulus legislation were made in May but not repeated last month. In June, a \$250 one-time payment was made to recipients of veterans' benefits, which totaled \$5.6 billion at an annual rate, but this was much smaller than the \$250 payment made to social security and other recipients in May, which totaled \$158 billion annualized. The timing of these special payments was responsible for most of the decline in benefit payments and in personal income as a whole.
- Personal tax payments fell 1.5% in June, only a bit faster than the decline in nominal personal income. The tax cuts in the stimulus package are now largely in place, so that the "effective tax rate" on personal income (personal current taxes as a share of nominal personal income) remained constant at 8.9%. This rate had averaged 12% over the previous three years.
- Personal consumption rose 0.4% before inflation but fell 0.15% in real terms. Spending on durable goods fell, while non-durables rose 1.7% and services were little changed. Largely as a result of the decline in income, the personal savings rate fell back to 4.6%, and May's savings rate was revised down to 6.2%. Thus far in 2009 the savings rate has averaged 4.7%. However, according to revised data for prior years, the savings rate was not as low as previously reported: it was 2.4% in 2006 instead of the

prior 0.7%, it was 1.7% in 2007 vs. the earlier 0.6%, and 2.7% in 2008 vs. 1.8%. (The savings rate has normally tended to be revised higher over time.)

- The headline PCE price index fell 0.4% in June, but the core index rose 0.2%, in line with expectations. Year-over-year, the core PCE index was up 1.5%. Nevertheless, there are some indications in the PCE price index of higher core inflation: durable goods prices are no longer falling and have instead been flat over the past six months, and services prices may be rising a bit more rapidly. Over the three months through June, the core PCE price index rose at a 2.0% rate instead of the 1.5% rate at which it rose for the full year.

Source: U.S. Bureau of Economic Analysis

Although complicated by revisions to past data and by one-time government payments, this report nevertheless confirms our view that government benefits, lower taxes and price declines have been the major sources of household sector real income growth in recent months. The problem households now face is that these three sources should not contribute further to income growth in the future, unless a new stimulus package is passed or oil prices have another sharp decline. Real disposable personal income is likely to decline in the second half of this year before recovering with employment in 2010, and this implies muted (1.5–2.0% annualized) growth in personal consumption spending for the remainder of this year. ■

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