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## July Personal Income/Spending: Transfer Payments, Labor Earnings Push Income Higher

- › Personal income rose by 1.1 percent in July, personal spending rose by 0.3 percent, and the saving rate rose to 9.6 percent
- › The PCE Deflator rose by 0.4 percent and the core PCE Deflator rose by 0.3 percent in July; on an over-the-year basis, the PCE Deflator is up 4.2 percent and the core PCE Deflator is up 3.6 percent

Total personal income rose by 1.1 percent in July, matching our forecast and easily topping the consensus forecast of a 0.3 percent gain, while total personal spending rose by 0.3 percent, just shy of the 0.4 percent increase we and the consensus expected. Reflecting the first installment of the expanded Child Care Tax Credit and ongoing distribution of Economic Impact Payments, net transfer payments jumped in July, combining with another solid increase in labor earnings to push total personal income higher. The increase in consumer spending is more than accounted for by higher spending on services, as consumer spending on goods fell a bit more than our forecast anticipated. With income growth outpacing spending growth, the personal saving rate rose to 9.6 percent in July. The PCE Deflator rose by 0.4 percent in July, with the core PCE Deflator up by 0.3 percent, yielding over-the-year increases of 4.2 percent and 3.6 percent, respectively. Adjusted for inflation, total consumer spending fell 0.1 percent in July.

Bolstered by solid increases in employment and average hourly earnings, aggregate private sector wage and salary earnings rose by 1.0 percent in July. This extends the run of solid advances seen over the past several months as ongoing labor supply constraints combined with strong demand for labor bids up wages. Public sector wage and salary earnings rose by 1.1 percent in July. On an annualized basis, the first monthly payout of the expanded Child Care Tax Credit (CCTC) added 211.1 billion to personal income in July. While the total amount of the CCTC expansion will amount to roughly 0.6 percent of disposable personal income, what makes the expansion more impactful is that half of it is being distributed in six monthly installments, beginning in July and ending in December, as opposed to it all being sent out during next year's tax filing season. With the Economic Impact Payments still not having been fully distributed, payouts in July added \$45.7 billion, on an annualized basis, to personal income in July. These two factors more than offset a further decline in unemployment insurance benefit payouts with the net effect being a 2.9 percent increase in total transfer payments in July. Rental income rose by 0.4 percent in July, reversing a

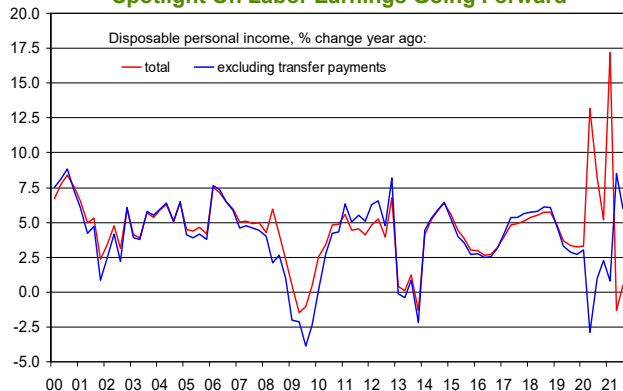
string of three monthly declines, while asset-based income rose by 0.3 percent, half the increase seen in June. While the expanded CTCC had a significant impact on personal income in July, it is private sector wage and salary earnings that bear watching, as this is far and away the single largest component of personal income. Further improvement in labor market conditions will set the stage for continued growth in labor earnings in the months ahead, in contrast to what are likely to be wide swings in transfer payments.

Spending on consumer durable goods, such as motor vehicles, furniture, and appliances, fell by 2.3 percent in July. Supply constraints amid strong demand has led to significantly higher prices for consumer durable goods, but in terms of total outlays diminishing volume is more than offsetting higher prices. Spending on nondurable consumer goods fell by 0.4 percent in July, in keeping with the data on July retail sales. As we've noted for the past several months, however, one factor behind the downward drift in consumer spending on goods – July marks a third straight monthly decline – is a realignment in spending patterns as the economy reopened and demand for services such as travel, tourism, dining out, entertainment and recreation picked up. Still, as of July, the level of consumer spending on goods was 19.8 percent above the pre-pandemic peak while the level of consumer spending on services was just 1.3 percent above the pre-pandemic peak. What remains to be seen is how the sharp rise in COVID-19 case counts impacts spending patterns in August. There are indications that consumers have pulled back on activities such as travel, entertainment, and dining out, which will act as a drag on services spending, while at the same time ramped up back-to-school shopping will provide a boost to spending on goods.

Though the monthly increase moderated, July marks the second straight month in which PCE inflation topped 4.0 percent. With global supply chain and logistics bottlenecks looking set to persist into 2022 and labor costs continuing to grow, inflation could prove to be more stubborn than many have been anticipating. This will likely play into the timing and pace of the FOMC tapering the Fed's monthly asset purchases.



### Spotlight On Labor Earnings Going Forward



### Composition Of Spending Will Continue To Shift

