

Economic Analysis

# Consumers Made More and Spent More in August

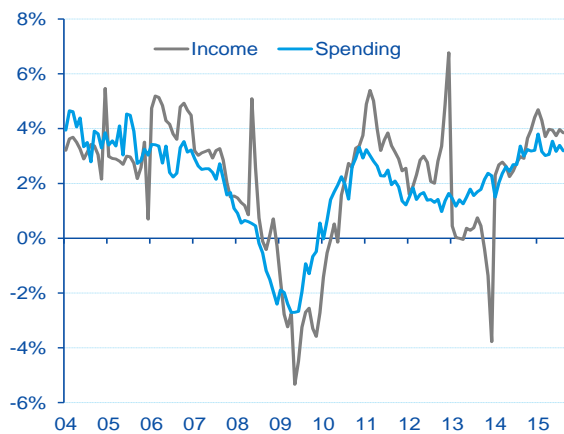
Amanda Augustine

- **Personal income increased 0.3% MoM, while consumer spending rose 0.4% MoM**
- **The personal savings rate edged downward, but remains high at 4.6%**
- **Inflation remained muted, with the core PCE price index at 1.3% YoY**

Personal income increased 0.3% MoM in August, slightly below expectations, but July was notably revised upward to a solid 0.5% MoM. Real disposable personal income (DPI) also increased in August, up 0.4% MoM for the second month in a row. The wages and salaries component had a leading role in this upward trend, rising 0.6% and 0.5% MoM in July and August, respectively. Higher compensation and employment growth seems to be encouraging consumers to spend more of their earnings; personal outlays, or consumer spending, increased for the seventh month in a row, rising 0.4% MoM in August. Consumers are sacrificing some saving in favor of spending. The personal savings rate fell slightly to 4.6% in August; earlier this year, it was at a two-year high of 5.4%.

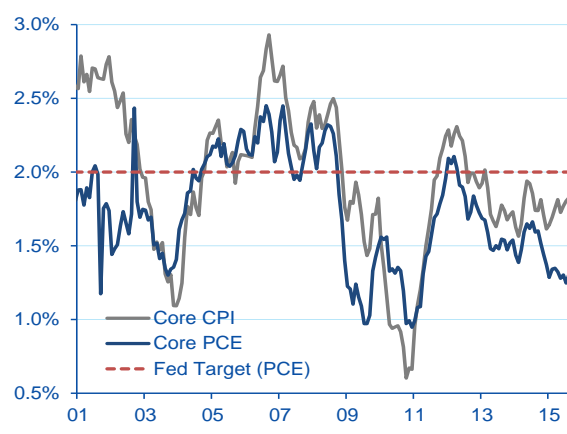
At the same time, inflation remained soft. The price index for personal consumption expenditures (PCE) rose only 0.3% YoY in August. Muted headline inflation reflects prolonged low oil prices, which might also have a role in consumers' higher spending. The core PCE price index was up 1.3% YoY, where it has been for seven out of eight months this year. Despite weak global demand and volatile markets, consumers are showing their confidence in the domestic economy. Given steady hiring and low unemployment, we maintain our expectation for consumer-driven growth throughout the rest of the year. Furthermore, this personal income and outlays release supports Fed Chair Yellen's comments last week stating that strong economic indicators likely warrant a rate hike this year; however, softness in inflation continues to add uncertainty. On the bright side, low inflation suggests that in real terms, PCE will continue to contribute strongly to real GDP growth.

Chart 1  
**Real PCE and Income (YoY % Change)**



Source: BEA & BBVA Research

Chart 2  
**Inflation: Core CPI and Core PCE Index (YoY % Change)**



Source: BLS, BEA & BBVA Research

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