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June Personal Income, Construction Spending, July ISM MF

Income Stagnant in June as Dividends Reset

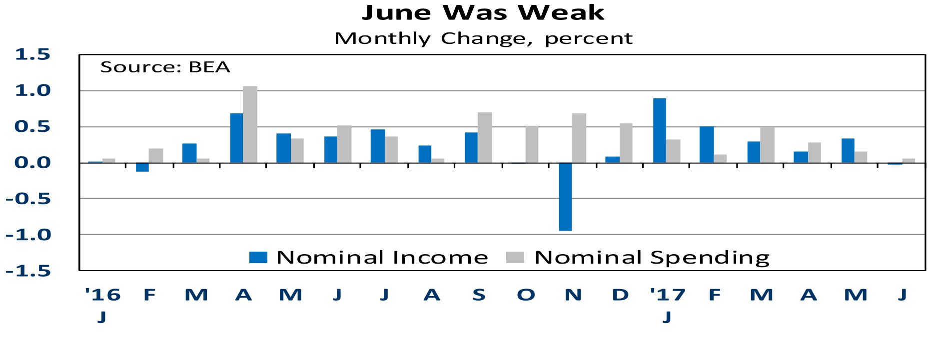
- U.S. Real Disposable Personal Income eased by 0.1 percent in June.
- The Personal Consumption Expenditure Price Index was unchanged for the month.
- Real Consumer Spending was also unchanged in June.
- Construction Spending dropped by 1.3 percent in June.
- The ISM Manufacturing Index for July dipped to 56.3, still a positive number.

Personal income and spending were both flat in June. This data has already been incorporated into the first estimate of Q2 GDP, which was published last Friday. The soft June spending data sets the stage for solid Q3 performance, supportive of ongoing moderate GDP growth. The June income data shows that wages and salary were in good shape, increasing by 0.4 percent for the month, consistent with the strong job growth we saw in June and the low unemployment rate. However, there was a large drag from income derived from assets, which declined by 1.8 percent for the month, after increasing by 1.3 percent in May. Interest income was down for the third month in row, falling by 1.0 percent in June. Dividend income was down 3.0 percent in June after jumping by 4.8 percent in May. There was no inflation in June according to the personal consumption expenditure price index. This is good news for consumers but it puts the Federal Reserve in an awkward position. Their expectations for four more fed funds rate hikes between now and the end of 2018 (based on the June Dot Plot), may be too aggressive if inflation remains weak. We will see a new Dot Plot on September 20 that could show a shallower trajectory for the fed funds rate based on reduced inflation expectations. Real consumer spending was unchanged in June. Real spending on durable goods eased by 0.1 percent, consistent with cooler unit auto sales in June. We will see July unit auto sales in a separate report this afternoon. Real spending on nondurables was down 0.2 percent in June. Real spending on services increased by 0.1 percent. The personal saving rate has been revised down significantly with the June data revisions. It eased from 3.9 percent in May to 3.8 percent in June. There is now a discontinuity in the personal saving rate data as it dropped from 5.3 percent in October 2016 to 3.7 percent in November 2016. This is not unheard of, but it does look unusual.

Construction spending eased by 1.3 percent in June, with a large 5.4 percent drop in public projects. Private residential projects eased by 0.2 percent while private nonresidential ticked up by 0.1 percent.

Manufacturing conditions are good. The ISM Manufacturing Index eased to a still-positive 56.3 in July. Nine out of 10 sub-indexes were positive, including new orders, production and employment. Only customer's inventories fell below 50, to 49.0, indicating a modest draw down, which is not necessarily a bad thing. Anecdotal comments in the report were positive. Of the 18 reporting industries, 15 said they expanded in July. Apparel, leather and petroleum/coal reported contraction for the month. We are watching for signs of drag from two industries, auto production and oil drilling. Auto sales have eased from last December's high, and drilling rig counts are stabilizing. So far, the overall manufacturing sector appears to be undaunted.

Market Reaction: U.S. equity markets opened with gains. The yield on the 10-year Treasury bond is down to 2.26 percent. NYMEX crude is down to $49.61/barrel. Natural gas futures are up to $2.80/mmbtu.



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