ECONOMIC UPDATE

REGIONS

August 29, 2025

July Personal Income/Spending: Largely In Line, But No Verdict On Tariff Pass-Through

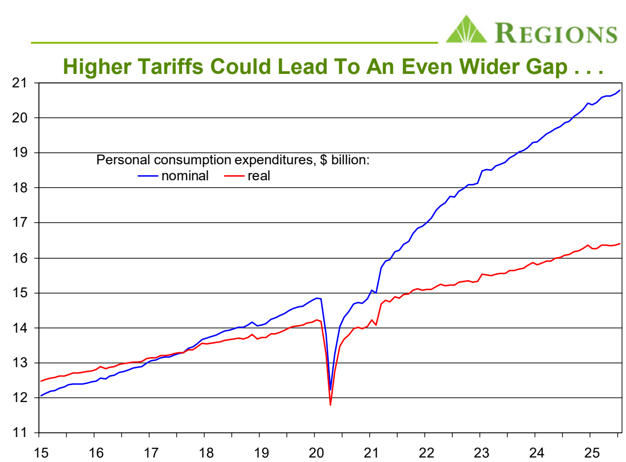
- Personal income <u>rose</u> by 0.4 percent in July, personal spending <u>rose</u> by 0.5 percent, and the saving rate was <u>unchanged</u> at 4.4 percent
- The PCE Deflator was <u>up</u> by 0.2 percent and the core PCE Deflator was <u>up</u> by 0.3 percent in July; on an over-the-year basis, the PCE Deflator is <u>up</u> 2.6 percent and the core PCE Deflator is <u>up</u> 2.9 percent

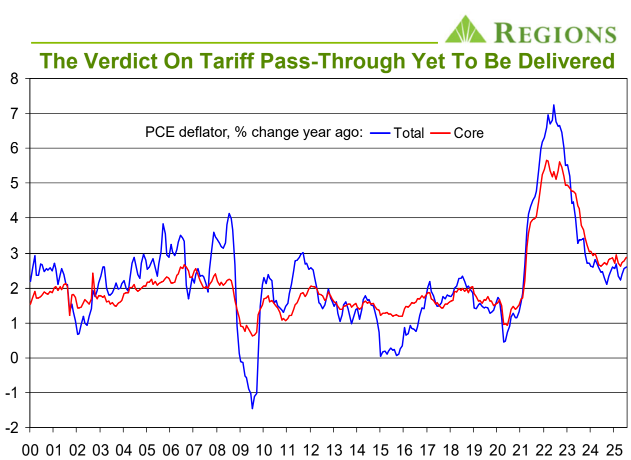
Total personal income rose by 0.4 percent in July, shy of the 0.6 percent increase we anticipated but in line with the consensus forecast. Personal spending rose by 0.5 percent, again short of the 0.6 percent increase we anticipated but in line with the consensus forecast, though with the upward revision to June spending growth the level of personal spending in July was about where we anticipated it would be. Our miss on income growth owes to transfer payments and asset-based income coming in lighter than our forecast anticipated. The PCE Deflator, the FOMC's preferred gauge of price changes, rose by 0.2 percent in July while the core PCE Deflator rose by 0.3 percent, each matching what we and the consensus forecast anticipated. As of July, the PCE Deflator is up 2.6 percent year-on-year while the core PCE Deflator is up 2.9 percent. It is, however, worth noting that a sharp increase in the imputed measure of financial services costs contributed heavily to the increase in the core PCE Deflator; the "market based" core PCE Deflator (which excludes most imputed expenditures, such as financial services, for which no prices are observed) was up by 0.2 percent in July, and just barely at that, and is up 2.6 percent year-on-year. Either way, the July data shed very little light on the bigger, if not the biggest, question of the day, which is the extent to which tariff pass-through will push goods prices higher. The July data, by the way, will be the last read on the PCE Deflator the FOMC will see prior to their September meeting. We'll say the same thing here we said in our wrap of the July Consumer Price Index data, which is that there is nothing in the data from the July PCE Deflator that would argue against a Fed funds rate cut at the September FOMC meeting.

Private sector wage and salary earnings rose by 0.7 percent in July as our forecast anticipated. While that may seem at odds with the tepid increase in private sector payrolls in July, keep in mind that the average length of the private sector workweek rose by one-tenth of an hour. As we've often noted, these seemingly small changes in the average length of the workweek can have a profound impact on total wage and salary earnings given the base – just under 136 million workers – on which this increase is being applied. More significantly, aggregate private sector wage and salary earnings are up 5.5 percent year-on-year, easily outrunning inflation as has been the case over this whole period of elevated inflation. After having been notably volatile over the prior several months, transfer payments were flat in July, at odds with our forecast of a moderate increase. Much of that volatility was due to Social Security payments, which account for over thirty percent of total transfer payments, reflecting the impacts of the *Social Security Fairness Act* (SSFA). Social security payments fell by 0.8 percent in July, likely unwinding the last of the one-off retroactive payouts made under the SSFA. While the sizable increases in Medicare and Medicaid payouts continued in July, unemployment insurance benefits fell by 0.3 percent after having risen sharply in both May and June, with July's decline consistent with the modest dip in continuing claims for unemployment insurance benefits. Real disposable personal income excluding transfer payments rose by 0.3 percent in July, the largest monthly advance since November.

July spending growth was led by a 1.9 percent increase in spending on consumer durable goods, underpinned by a surprise jump in unit sales of new motor vehicles, though we see it as highly unlikely that July's sales rate will be sustained, meaning the August data will bring payback. Our proxy of discretionary services spending rose by only 0.3 percent in July, a smaller gain than we expected. That said, while spending on lodging and travel posted a healthy advance, a decline in restaurant spending acted as a drag on the broader category, which seems a bit at odds with the increases in the travel and lodging components.

Core goods prices were flat in July, with a sharp decline in prices of recreational goods and vehicles offsetting increases in other categories, while sharply lower energy prices also weighed on overall goods prices. As of yet, there is no strong evidence of tariff pass-through into goods prices, but we continue to expect that to change in the months ahead. While imputed price changes bolstered core services inflation in July, we continue to expect services price disinflation to act as less of an offset to faster goods price inflation, meaning the overall PCE Deflator is likely to show inflation picking up, even of only gradually, in the months ahead.





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