

DAILY GLOBAL  
COMMENTARY

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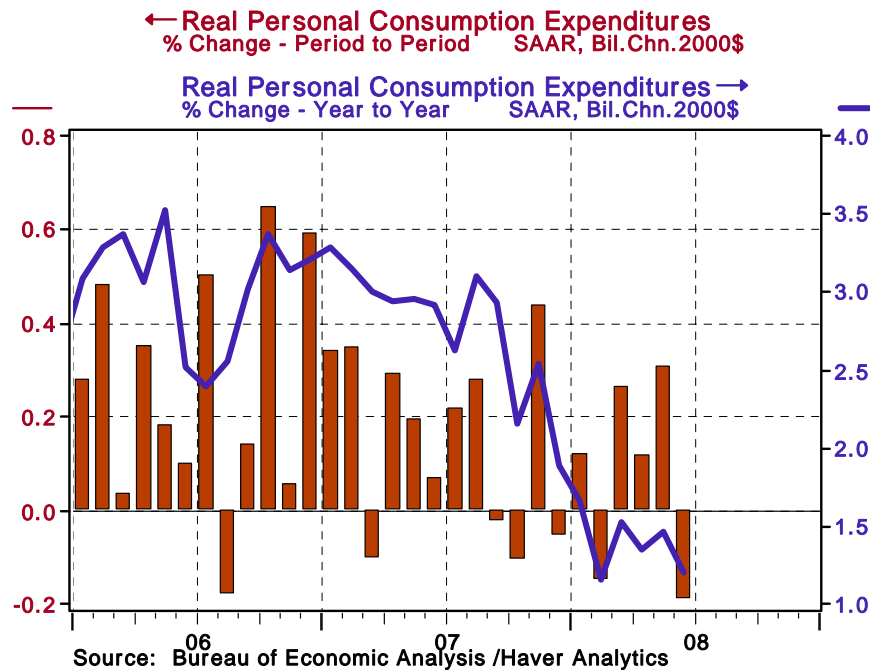
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## Outlook for Consumer Spending Remains Gloomy

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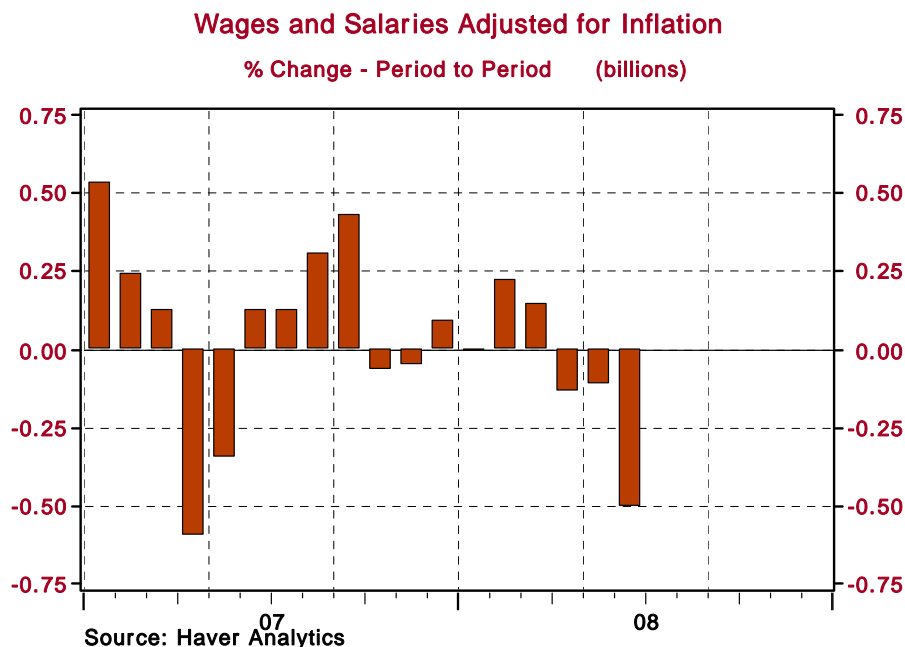
Nominal consumer spending increased 0.6% in June, following a 0.8% jump in May. These headlines overstate the strength in consumer spending. After adjusting for inflation, consumer spending fell 0.2% in June after a 0.3% increase in May. On a year-to-year basis, consumer spending slowed to a 1.2% increase in June, the smallest gain since October 2002.

Chart 1



In June, purchases of durables declined 1.6% and that of non-durables was down 0.4%. Outlays on services increased 0.2%. The level of real consumer spending in June is below the second quarter average, which is arithmetically unfavorable for third quarter consumer spending. In addition, auto sales in July fell to an annual rate of 12.55 million units, the slowest sales pace since April 1992. An exceptionally robust growth in consumer spending will be necessary to offset these two negative factors in the third quarter. Moreover, wage and salary growth is not supportive of strong gains in consumer spending. Inflation adjusted wages and salaries fell 0.5% in June, after two consecutive monthly declines, albeit smaller in magnitude. Given the weakness in labor market conditions and the absence of the one-off tax rebate check, consumer spending will most likely decline in third quarter.

Chart 2

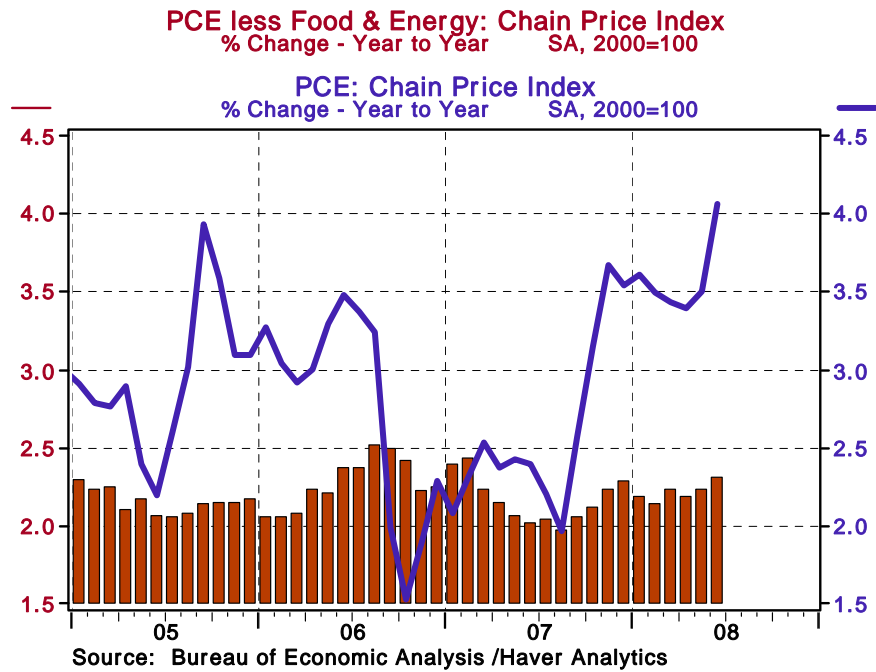


Personal income increased 0.1% in June after a 1.8% gain in May. The difference in growth of personal income reflects the impact of the Economic Stimulus Act of 2008. Excluding the impact of tax rebates, personal income increased 0.3% in June, following a 0.4% jump in May. As mentioned earlier, labor compensation is not supportive of consumer spending. Real disposable income fell 2.6% in June vs. a 5.2% increase in May, which includes the impact of tax rebates. Excluding rebates, real disposable income fell 0.4% in June, after a 0.1% drop in May.

The overall personal consumption expenditure price index moved up 0.8% in June, putting the year-to-year increase at 4.1%. The core personal consumption expenditure price index, which excludes food and energy, rose 0.3% in June. On a year-to-year basis, the core personal consumption expenditure price index shows a 2.3% gain in June, which is above the FOMC's comfort level of a 2.0% year-to-year increase. The Fed's latest view in the inflation-growth debate will be available when the policy statement is published on August 5 after the FOMC statement.

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Chart 3



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