Consumers Make More, Spend More in July

Americans' wallets got a little fatter in July, as disposable personal income climbed 0.5 percent for the fourth consecutive month of growth, according to a report released Friday by the Bureau of Economic Analysis.

Workers' wages and salaries last month collectively ballooned $35.8 billion, more than double June's $14.3 billion gain. Supplements to wages and salaries, which include pensions and other retirement-benefit plans, increased $6 billion last month, up from June's $4.6 billion.

The uptick in wages seems to have contributed to stronger personal consumption expenditures; such consumer spending gained 0.3 percent in July in a positive sign for America's consumer-driven economy. Consumers don't seem to be letting up, despite international concerns, a shaky stock market and interest rate uncertainty.

"Household income is steadily rising, and consumer spending is rising along with it, as noted by solid gains in July for both personal income and consumer spending," Stuart Hoffman, senior vice president and chief economist at The PNC Financial Services Group, wrote in a research note Friday. "There is also a lot of pent-up demand for purchases; consumers are making up for years of restrained spending following the Great Recession."

But whether spending gains are here to stay remains to be seen. How much cash consumers shell out can certainly be bolstered by wage increases, but it can also be subdued by market volatility and pessimistic consumer sentiment. Gallup's Economic Confidence Index last week plummeted to tie its lowest level seen so far in 2015. Only 37 percent of Americans said the economy was "getting better," while nearly 60 percent said it was "getting worse."

"There was much more activity occurring outside of the consumer sector in areas such as business investment and manufacturing, as well as trade," Lindsey Piegza, chief economist at Stifel Fixed Income, said of the updated GDP report in a research note Thursday. "The [Federal Reserve] is still keeping an eye on the underlying conditions in the U.S. labor market, which have yet to produce wage pressures."

Revisions to GDP numbers are hardly uncommon. Each individual release is followed by a handful of subsequent revisions based on more current and complete data. What is unusual, however, is how high GDP jumped during its second take. Growth was driven in part by "an upturn in exports, an acceleration in [personal consumption expenditures], a deceleration in imports, an upturn in state and local government spending and an acceleration in nonresidential fixed investment," according to the report.

"Most eye-catching was non-residential investment, which was previously thought to have shrunk as a result of the effect of low oil prices on the energy sector. Instead it grew by 3.2 percent on an annual rate," Mike Jakeman, a global analyst with The Economist Intelligence Unit, wrote in a research note Thursday. **"[The revisions] also mean that the Fed can be confident that the economy is in a healthy state when it next meets to consider its first interest rate rise since 2006."**

The BEA last month reported non-residential fixed investment contracted 0.6 percent in the second quarter for the first quarterly contraction since 2012, but Thursday's updated report erased such losses. Investment in structures increased 3.1 percent, while investment in equipment decreased 0.4 percent – still negative, but significantly stronger than the previously reported 4.1 percent decline.

Business investment is considered by many to be a harbinger of productivity gains, as new equipment and facilities enable employees to more quickly and seamlessly do their jobs. Productivity growth, in turn, generates more output for companies and can help spur employers into increasing wages. And wages typically bode well for retail sales and consumer spending that help drive the economy forward.

"If you don't have business investment spending that's decent, particularly if the labor market continues to improve, then you're going to have a real risk that productivity is sluggish," Robin Anderson, a senior economist at Principal Global Investors, told U.S. News in an interview earlier this month. "If we don't see productivity growth picking up, then that's going to be a drag on potential output, or the best the economy can be, if you want to put it in layman's terms."

This domino effect likely wouldn't crop up in personal income reports right away. But an uptick in business investment could be a good sign for consumers' salaries going forward and could help bolster future personal income reports down the line.

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1. What does the article tell you about the relationship between consumption and disposable income in an economy? Write the numerical change observed in the article.

2. What are the other components of GDP or Y that are mentioned in the article? How did these components help increase GDP or economic growth in the US?

3. Look at the quote in Page 1 that is in bold format. Why does the Fed want the economy to be in a healthy state the next time they increase the interest rate? Answer this considering the effect interest rates have on all types of investment.