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MARKETS | HEARD ON THE STREET

Rising Incomes Juice Consumer Spending

Things are looking up for the average U.S. consumer, and that bodes well for the economy



Shoppers in a Miami grocery store. The shift upward in median household income could have important implications for U.S. consumer spending. *PHOTO: ASSOCIATED PRESS*

By **JUSTIN LAHART**

Updated Sept. 13, 2016 4:25 p.m. ET

Joe and Jane Six Pack are doing better. That is something that will show up in their spending.

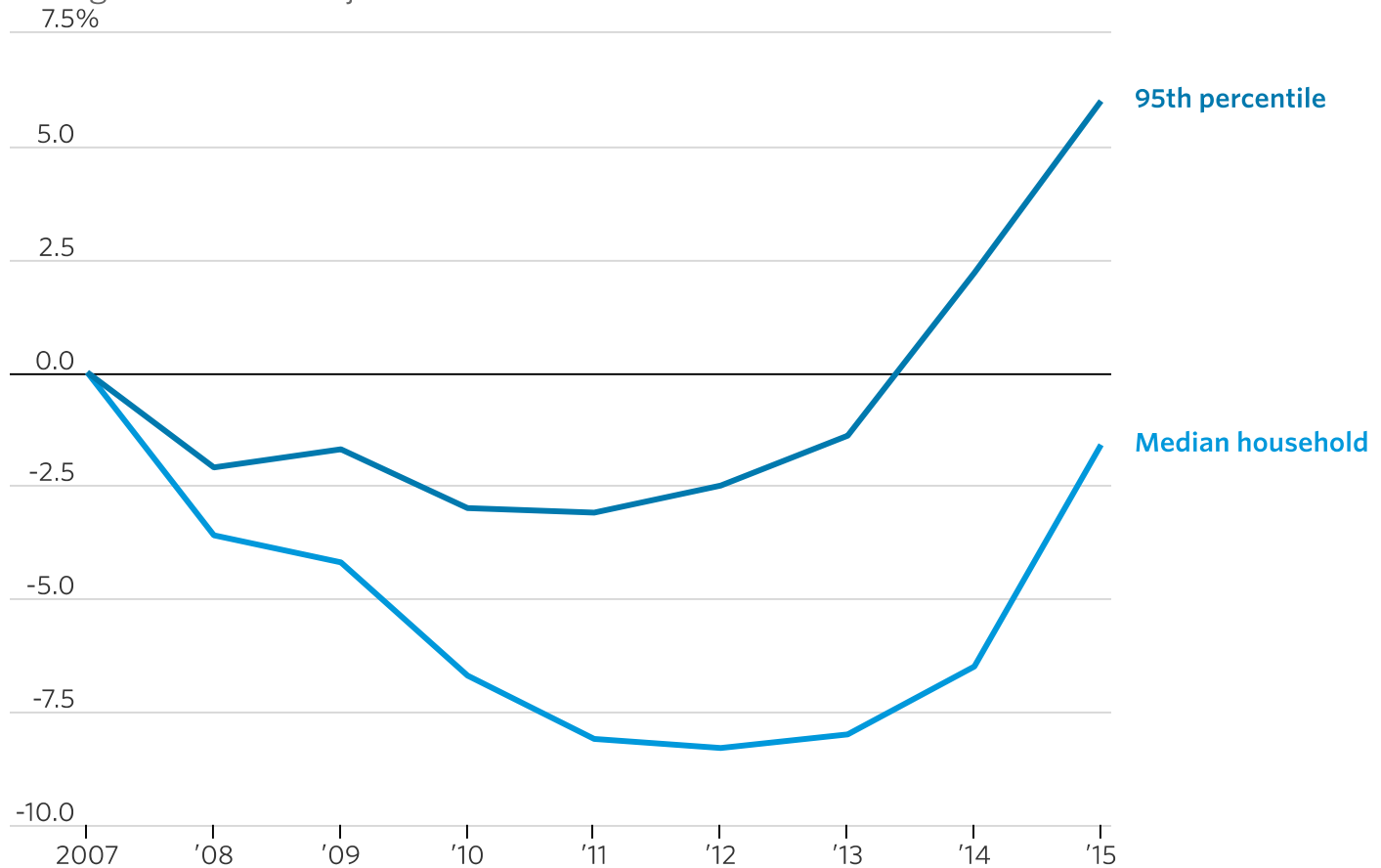
The Census Bureau on Tuesday reported that the income at the median U.S. household—the one at the statistical middle of the middle—rose an inflation-adjusted 5.2% to \$56,500 last year from 2014. While still 1.6% below the precrisis level, that marked the biggest annual gain on record. Income inequality eased, with income growing faster for middle class than the rich, and lower-income households improving even more.

That is a shift that could have important implications for U.S. consumer

spending, and for retailers and other consumer-facing businesses. While companies serving higher-income households have tended to be the biggest beneficiaries of rising incomes in recent years, the ones aimed at the middle could see some catch-up.

Incoming

Change in inflation-adjusted household income since 2007



Source: Census Bureau

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The income gains for less affluent households probably have continued in 2016. While lower gasoline prices aren't providing as much of a boost to inflation-adjusted incomes as in 2015, continued hiring and steady wage increases are putting more money in workers' pockets. Those help middle-class and lower-income households in particular, since they tend to depend more on their paychecks than upper-income households, which generate more investment income.

Moreover, those paychecks tend to get spent. John Shin and Michelle Meyer of Bank of America Merrill Lynch estimate that roughly 60% of U.S. households spend all of their income. For most of these people additional income translates

into additional spending. That is a one reason the consumer has been the biggest thing the U.S. economy has had going for it lately. Indeed, while gross domestic product grew at just a 1% annual rate in the first half, dragged down by weak business spending, consumer spending grew 3%.



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The gains for the middle-class and lower-income households look likely to continue. Even though most economists reckon hiring should moderate in the year ahead as the economy gets closer to full employment, wage growth ought to pick up steam.

So even as they fight against the trend toward online sales, it might be that middle-class oriented retailers like Wal-Mart are due to catch a bit of a break. And some of the trends in spending that have been served up as truisms, like that consumers now prefer experiences to stuff (something that is easier to say for rich people who already have a lot of stuff) may prove less lasting than advertised.

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