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September Personal Income and Consumption

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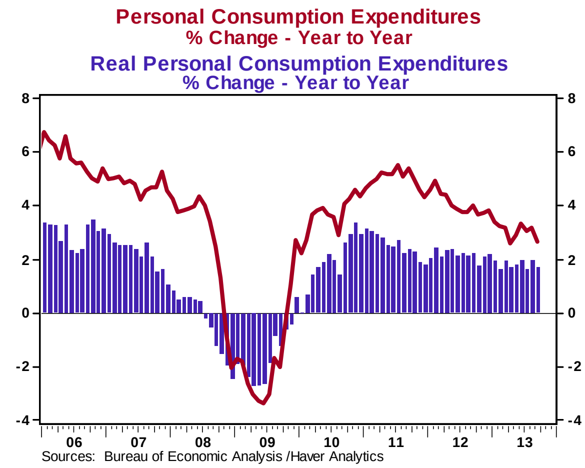
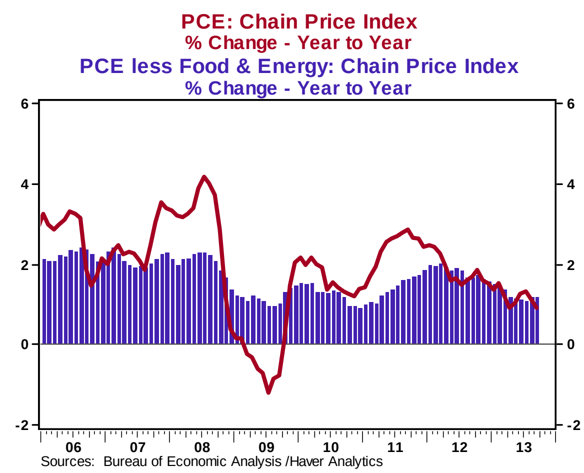
- Personal income increased 0.5% in September, beating the consensus expected 0.3% gain. Personal consumption rose 0.2%, matching the consensus. In the past year, personal income is up 3.7% while spending is up 2.7%.
- Disposable personal income (income after taxes) increased 0.5% in September and is up 2.9% from a year ago. The gain in income in September was driven by wages & salaries and farm income.
- The overall PCE deflator (consumer prices) rose 0.1% in September and is up 0.9% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in September and is up 1.2% in the past year.
- After adjusting for inflation, "real" consumption was up 0.1% in September and is up 1.7% from a year ago.





Implications: Another good report on income and spending in September shows the consumer is doing just fine. Income grew 0.5% in September, with wages & salaries showing the largest share of the gain. Spending rose 0.2% overall and 0.1% including adjustments for inflation. Income growth has accelerated over the past three months, growing at a 4.5% annual rate versus a 3.7% gain the past year. Despite all the hand-wringing by pundits at the beginning of the year, there is still no evidence that the end of the payroll tax cut or federal spending sequester hurt consumers. It remains to be seen whether supposed concerns about the partial government shutdown affected consumer spending in October (we will see in next month's report). A partial shutdown did not affect consumer spending in December 2005, so we're skeptical it will this time. But even if it does, expect spending to snap back quickly in November. We expect further gains in both income and spending over the remainder of the year and into 2014. Job growth will continue and, as the jobless rate gradually declines, employers will be offering higher wages. Meanwhile, consumers' financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve's favorite measure of inflation, the personal consumption price index, rose a tepid 0.1% in September. Core consumption prices were also up 0.1%. Overall consumption prices and core prices, which exclude food and energy, are up 0.9% and 1.2% respectively in the past year. Both are well below the Fed's 2% target. However, we think these price measures will move higher over the next year. QE was a mistake. The sooner the Fed starts to taper, the better.

Personal Income and Spending *All Data Seasonally Adjusted*	Sep-13	Aug-13	Jul-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.5%**	0.5%	0.2%	4.5%	3.6%	3.7%
Disposable (After-Tax) Income	**0.5%**	0.5%	0.3%	5.6%	3.7%	2.9%
Personal Consumption Expenditures (PCE)	**0.2%**	0.3%	0.1%	2.8%	2.4%	2.7%
Durables	**-1.3%**	1.4%	0.0%	0.5%	3.9%	4.0%
Nondurable Goods	**0.6%**	-0.1%	0.8%	5.2%	2.7%	1.4%
Services	**0.3%**	0.3%	-0.1%	2.3%	2.0%	2.9%
PCE Prices	**0.1%**	0.1%	0.1%	1.2%	1.0%	0.9%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.1%	1.1%	1.1%	1.2%
Real PCE	**0.1%**	0.2%	0.0%	1.6%	1.4%	1.7%

Source: Bureau of Economic Analysis