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September Personal Income and Consumption

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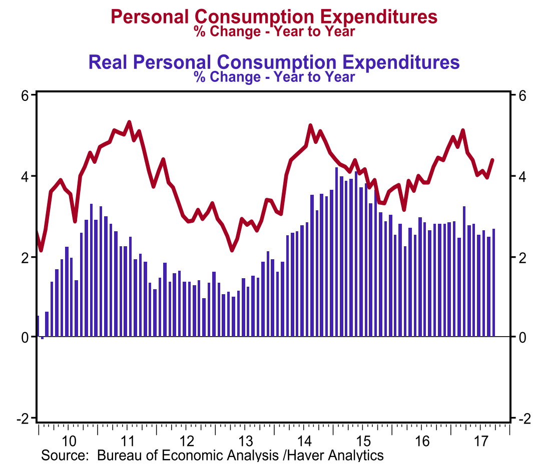
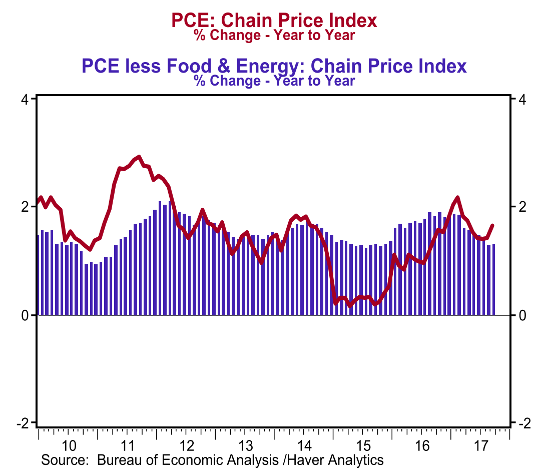
- Personal income rose 0.4% in September, matching consensus expectations. Personal consumption increased 1.0%, beating the consensus expected 0.9%. Personal income is up 3.0% in the past year, while spending is up 4.4%.
- Disposable personal income (income after taxes) rose 0.4% in September and is up 2.9% from a year ago. The gain in September was led by private sector wages and salaries.
- The overall PCE deflator (consumer inflation) rose 0.4% in September and is up 1.6% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.1% in September and is up 1.3% in the past year.
- After adjusting for inflation, "real" consumption rose 0.6% in September and is up 2.7% from a year ago.





Implications: Consumer spending surged in September at the fastest pace for any month since 2009, led by a storm-induced pickup in auto sales. Along with autos, gasoline and household utilities also showed large increases in a month where most categories of spending rose. Incomes, meanwhile, increased 0.4% in September, led by an increase in private-sector wages and salaries. Government transfers, which rose in August due to a temporary boost in government checks like FEMA disaster assistance payments, showed a minor increase in September. In the past year, personal income is up 3.0% while government benefits are up 2.7%. As the economy continues to clear the effects of Harvey and Irma, we expect faster growth in income with gains tilted toward the private-sector. While spending outpaced income growth in September, and has risen at a faster pace in the past year, stories about problems with the consumer are way overblown. Yes, consumer debts are at a record high in raw dollar terms, but so are consumer assets. Comparing the two, debts are the lowest relative to assets since 2000 (and that's back during the internet bubble when asset values were artificially high). Meanwhile, the financial obligations ratio - which compares debt and other recurring payments to income – is still hovering near the lowest levels of the past 35 years. In other words, consumers still have room to increase spending, and steadily rising incomes will continue to boost spending power in the months ahead. On the inflation front, the overall PCE deflator rose 0.4% in September and is up 1.6% in the past year. By contrast, a year ago in September 2016, the 12-month change for prices was 1.4%; in September 2015, it was up a meager 0.2%. In other words, we think inflation is still in a long-term accelerating trend. As a result, we expect the Federal Reserve to raise rates in mid-December and continue on the path of gradual rate hikes in 2018.

Personal Income and Spending *All Data Seasonally Adjusted*	Sep-17	Aug-17	Jul-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.4%**	0.2%	0.3%	3.7%	2.8%	3.0%
Disposable (After-Tax) Income	**0.4%**	0.1%	0.2%	2.6%	2.7%	2.9%
Personal Consumption Expenditures (PCE)	**1.0%**	0.1%	0.4%	6.2%	4.5%	4.4%
Durables	**3.2%**	-1.5%	1.2%	11.8%	7.1%	5.0%
Nondurable Goods	**1.5%**	0.8%	0.5%	11.6%	5.0%	4.7%
Services	**0.5%**	0.2%	0.2%	3.7%	3.8%	4.2%
PCE Prices	**0.4%**	0.2%	0.1%	2.8%	1.8%	1.6%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.1%	1.3%	1.5%	1.3%
Real PCE	**0.6%**	-0.1%	0.3%	3.4%	2.6%	2.7%

Source: Bureau of Economic Analysis