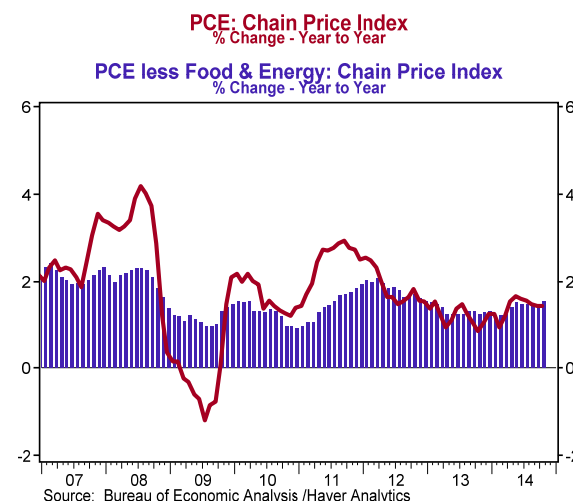
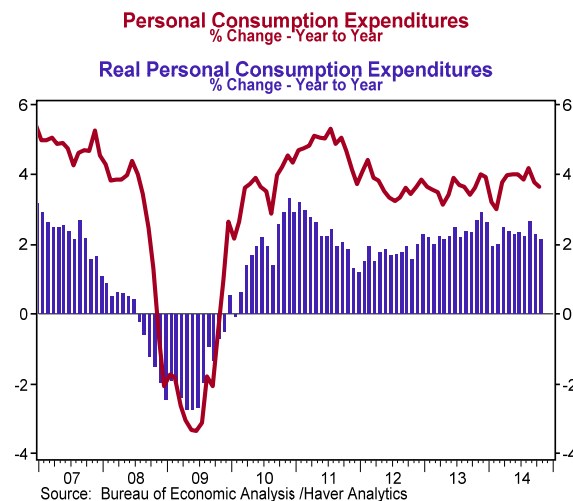


October Personal Income and Consumption

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- Personal income increased 0.2% in October (-0.2% including revisions to prior months) coming in below the consensus expected 0.4%. Personal consumption also rose 0.2% in October (+0.5% including revisions to prior months), versus the consensus expected gain of 0.3%. Personal income is up 4.1% in the past year, while spending is up 3.6%.
- Disposable personal income (income after taxes) increased 0.2% in October and is up 3.9% from a year ago. The gain in October was led by wages & salaries in the private service sector and non-farm small business income.
- The overall PCE deflator (consumer prices) increased 0.1% in October and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in October and is up a slightly higher 1.6% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in October and is up 2.2% from a year ago.

Implications: Ignore the personal income and spending numbers for a moment, the big news in today’s report is that the core PCE deflator (the Fed’s preferred measure of inflation) ticked up 0.2% in October and, after stalling for the past five months, is now up 1.6% in the past year. Given loose monetary policy, we expect that figure to rise in the year ahead. But, given tight bank lending standards and the energy production boom, the increase in inflation is going to be gradual. Consumer purchasing power continued to grow in October and we expect that trend to continue. Payrolls are up 2.6 million in the past year and the number of hours per worker are up as well. As a result, private-sector wages & salaries are up a robust 5.0% in the past year. Total income – which also includes rents, small business income, dividends, interest, and government transfer payments – increased 0.2% in October and is up 4.1% in the past year, which is faster than the 3.6% gain in consumer spending. In other words, higher incomes alone are enough to push spending up. One part of the report we keep a close eye on is government redistribution. In the past year, government transfers to persons are up 5.5%, largely driven by Obamacare. Medicaid spending is up 14.1% versus a year ago. However, outside Medicaid, government transfers are up only 3.5% in the past year and unemployment compensation is at the lowest level since 2007. Taken all together, government transfer payments – like Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – don’t seem to be falling back to where they were prior to the Panic of 2008, when they were roughly 14% of income. In early 2010, they peaked at 18%. Now they are down to 17% but not falling any further. Redistribution hurts growth because it reallocates resources away from productive ventures. This is why we have a Plow Horse economy instead of a Race Horse economy.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-14	Sep-14	Aug-14	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.2%	0.2%	0.4%	3.0%	3.6%	4.1%
Disposable (After-Tax) Income	0.2%	0.1%	0.3%	2.5%	3.4%	3.9%
Personal Consumption Expenditures (PCE)	0.2%	0.0%	0.5%	3.2%	3.4%	3.6%
Durables	-0.2%	-1.1%	2.1%	3.4%	4.6%	4.5%
Nondurable Goods	0.2%	-0.3%	0.0%	-0.6%	2.5%	2.8%
Services	0.3%	0.3%	0.5%	4.5%	3.5%	3.8%
PCE Prices	0.1%	0.1%	0.0%	0.3%	1.3%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.1%	1.5%	1.6%	1.6%
Real PCE	0.2%	0.0%	0.6%	2.9%	2.1%	2.2%

Source: Bureau of Economic Analysis