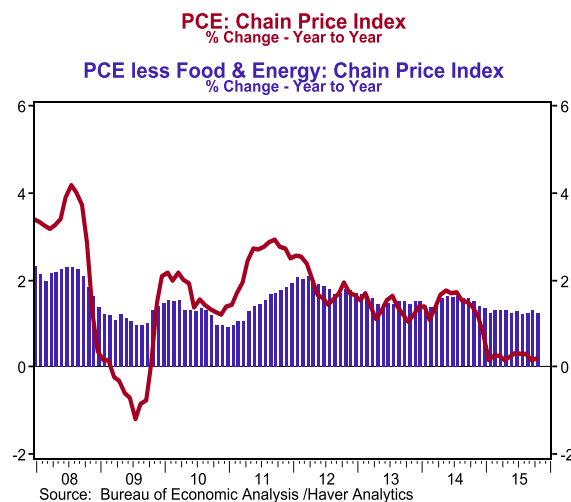
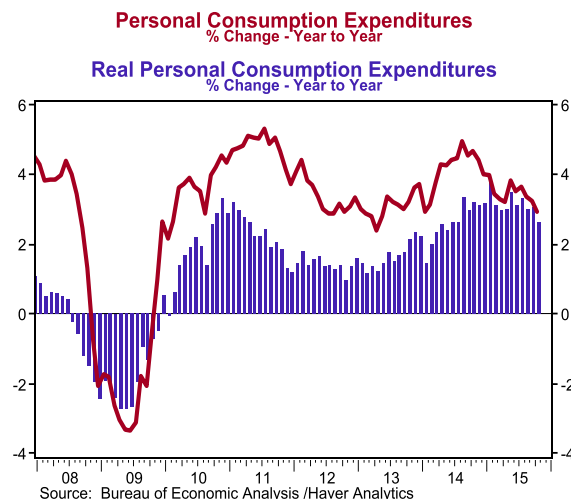


October Personal Income and Consumption

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- Personal income increased 0.4% in October, matching consensus expectations. Personal consumption rose 0.1% in October, coming in below the consensus expected 0.3%. Personal income is up 4.6% in the past year, while spending is up 2.9%.
- Disposable personal income (income after taxes) increased 0.4% in October and is up 4.1% from a year ago. The gain in October was led by private-sector wages and salaries. Most other categories had small gains.
- The overall PCE deflator (consumer prices) increased 0.1% in October and is up 0.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in October but up 1.3% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in October (unchanged including revisions to prior months) and is up 2.7% from a year ago.



Implications: Workers are earning robust gains in income while also boosting their spending, but not as fast. Personal income rose 0.4% in October, matching consensus expectations, and is up 4.6% in the past year. Meanwhile, despite the surge in auto sales (which likely continued in November), consumer spending is up a lukewarm 2.9% from a year ago. In other words, the increase in consumer spending in the past year isn’t due to some sort of unsustainable credit binge. Instead, it simply reflects higher purchasing power by American workers. They’re producing more, earning more, and spending more as a result. The main driver of the income gains has been private-sector wages and salaries, which were up 0.6% in October and are up 5.3% from a year ago. The only bad news in this report – and sadly it’s nothing new – was the continued failure to make progress against government redistribution. Although unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons are up 4.9% in the past year. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they’re around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures. This is why we have a Plow Horse economy, not a Race Horse economy. Moreover, the budget deal on Capitol Hill, although warmly received by establishment politicians and their cheerleaders in the media, suggests no progress against redistribution until at least 2017. On the inflation front, the PCE deflator, the Fed’s favorite measure, rose 0.1% in October. Although it’s only up 0.2% from a year ago, it continues to be held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.3% from a year ago. That’s also below the Fed’s 2% inflation target, but we expect some acceleration in the coming year. As soon as energy prices stop falling, inflation is going to pick up, supporting the case for starting rate hikes in December. In other news today, new claims for unemployment benefits fell 12,000 last week to 260,000. Continuing claims rose 34,000 to 2.21 million. It’s still very early, but our models suggest the first report on November payrolls will show a nonfarm gain of 172,000 before being revised up in later months.

| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Oct-15 | Sep-15 | Aug-15 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.4% | 0.2% | 0.4% | 4.0% | 5.1% | 4.6% |
| Disposable (After-Tax) Income | 0.4% | 0.2% | 0.4% | 4.1% | 5.1% | 4.1% |
| Personal Consumption Expenditures (PCE) | 0.1% | 0.1% | 0.3% | 2.1% | 4.1% | 2.9% |
| Durables | 0.0% | 0.5% | 0.3% | 3.3% | 3.7% | 3.5% |
| Nondurable Goods | 0.1% | -1.1% | 0.1% | -3.4% | 4.5% | -1.0% |
| Services | 0.1% | 0.4% | 0.4% | 3.8% | 4.0% | 4.1% |
| PCE Prices | 0.1% | -0.1% | 0.0% | -0.1% | 1.2% | 0.2% |
| "Core" PCE Prices (Ex Food and Energy) | 0.0% | 0.2% | 0.1% | 1.2% | 1.3% | 1.3% |
| Real PCE | 0.1% | 0.1% | 0.3% | 2.2% | 2.9% | 2.7% |

Source: Bureau of Economic Analysis