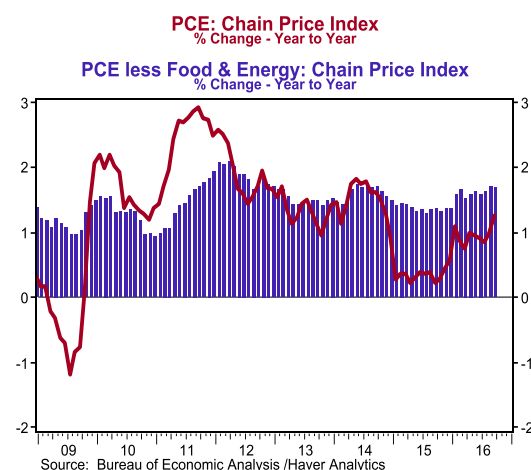
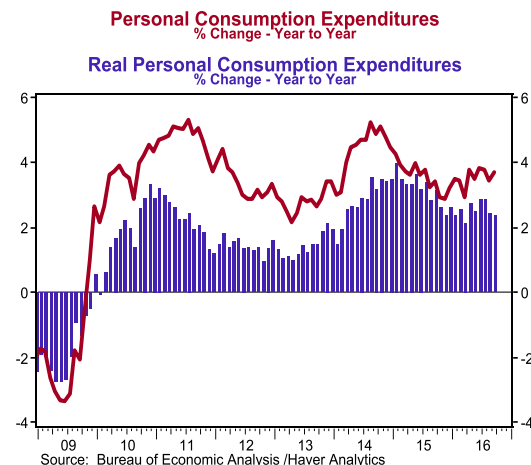


September Personal Income and Consumption

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- Personal income increased 0.3% in September, slightly below the consensus expected 0.4%. Personal consumption rose 0.5% in September (0.3% including revisions from prior months). The consensus expected 0.4%. Personal income is up 3.2% in the past year, while spending is up 3.7%.
- Disposable personal income (income after taxes) increased 0.3% in September and is up 3.4% from a year ago. The gain in September was led by private sector wages & salaries and non-farm small business income.
- The overall PCE deflator (consumer prices) was up 0.2% in September and is up 1.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in September and is up 1.7% in the past year.
- After adjusting for inflation, “real” consumption increased 0.3% in September and is up 2.4% from a year ago.

Implications: Another solid month of income and spending gains for consumers. No sign of a recession here, not even close. Consumer spending grew 0.5% in September, hitting a new all-time record high. “Real” (inflation-adjusted) consumer spending grew 0.3% in September, also hitting a record high, and is up a healthy 2.4% in the past year. Meanwhile personal income grew 0.3% in September. The gain was led by a 0.4% increase in private-sector wages and salaries. As the labor market keeps tightening, look for income growth to continue to accelerate, which means consumer spending will keep growing as well. On the inflation front, the PCE deflator, the Fed’s favorite measure, rose 0.2% in September. Although it’s only up 1.2% from a year ago, it was up only 0.2% in the year ending in September 2015, so inflation is accelerating. In fact, in the past six months, these prices are up at a 2.1% annual rate, surpassing the Fed’s publicly-stated 2% inflation target. Meanwhile, the “core” PCE deflator, which excludes food and energy, is up 1.7% from a year ago. We expect continued acceleration in year-ago comparison measures of inflation over the next several months. Together with continued employment gains, these figures support the case for the Fed to stay on track for a December rate hike. Look for a strong hint about that rate hike on Wednesday from the Fed. The one consistent dark cloud in the income reports has been the data on government redistribution. While unemployment compensation is the lowest since 2007, overall government transfers to persons are up 3.5% in the past year. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – 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 and, among those getting the transfers, weakens work incentives. That’s why we have a Plow Horse economy, not a Race Horse economy. In other news this morning, the Chicago PMI, a measure of manufacturing sentiment in that key region, declined to 50.6 in October from 54.2 in September. We’re forecasting that tomorrow’s report on the national ISM Manufacturing index is roughly unchanged at 51.6, versus 51.5 in September.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-16	Aug-16	Jul-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.2%	0.4%	3.7%	4.2%	3.2%
Disposable (After-Tax) Income	0.3%	0.2%	0.4%	3.3%	4.0%	3.4%
Personal Consumption Expenditures (PCE)	0.5%	-0.1%	0.3%	3.0%	5.4%	3.7%
Durables	1.3%	-1.9%	2.0%	5.5%	6.7%	2.9%
Nondurable Goods	0.6%	-0.1%	-0.7%	-1.1%	4.5%	1.2%
Services	0.3%	0.3%	0.4%	3.8%	5.5%	4.6%
PCE Prices	0.2%	0.2%	0.0%	1.7%	2.1%	1.2%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.2%	0.1%	1.8%	1.8%	1.7%
Real PCE	0.3%	-0.2%	0.3%	1.2%	3.2%	2.4%

Source: Bureau of Economic Analysis