September Personal Income and Consumption

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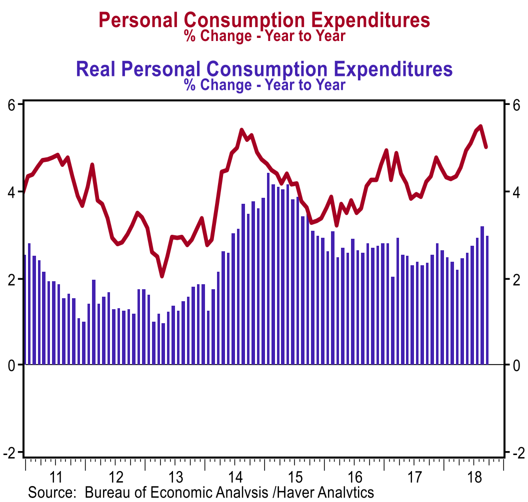
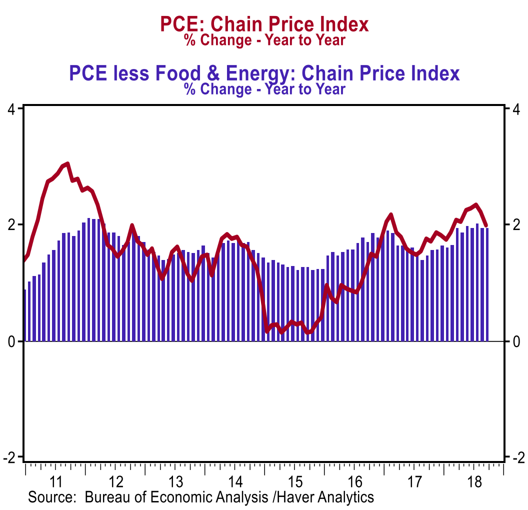
- Personal income rose 0.2% in September, lagging the consensus expected 0.4%. Personal consumption increased 0.4% in September, matching consensus expectations. Personal income is up 4.4% in the past year, while spending is up 5.0%.
- Disposable personal income (income after taxes) rose 0.2% in September and is up 4.9% from a year ago. The gain in September was led by government transfers and private-sector wages and salaries.
- The overall PCE deflator (consumer prices) rose 0.1% in September and is up 2.0% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.2% in September and is also up 2.0% in the past year.
- After adjusting for inflation, "real" consumption rose 0.3% in September and is up 3.0% from a year ago.





Implications: Growth in consumer spending remained strong in September, in spite of slower growth in income. Spending rose the expected 0.4% for the month while incomes rose a tepid 0.2%. However, the undershoot in income growth was well within the normal monthly range and the trend remains healthy. In the past year, personal income has grown 4.4%, exactly in-line with the pace of growth over the past five years. But thanks to the tax cuts, disposable income (income after taxes) is up 4.9% in the past year, growing faster than the 4.4% annualized growth over the past five years. To put some hard numbers on it, total after-tax income has expanded from $15.084 trillion in December 2017 to $15.651 trillion in September- meaning working Americans are taking home $567 billion more in annualized after-tax income (real spending power!) after factoring-in the tax cut. And consumers are putting that spending power to use, with consumption up 5.0% in the past year. Motor vehicles and parts led purchases higher in September, while spending on healthcare and recreation also showing large increases. While consumption growth has trended moderately above income growth over the past few years, this follows a period between 2010 and 2015 where income growth outpaced the growth in spending. As a result, consumer balance sheets remain very healthy, with plenty of room for increased spending in the months ahead. The worst news in today's report was that government transfers led the growth in income in September, rising 0.5%. That said, the upward trend versus a year ago is at a slower pace than private-sector wages. While government transfers are up 4.1% in the past year, transfer payments are making up a smaller – though still too high – portion of income. On the inflation front, the PCE deflator rose 0.1% in September and is up 2.0% in the past year. "Core" prices, which exclude food and energy, are also up 2.0% in the past year. All major measures of inflation continue to run at or above the Fed's 2% target, making a December rate hike highly likely. We also expect four rate hikes in 2019. Economic growth remains robust, and justifies higher rates. The Kevlar economy won't be brought down by these rate hikes because the Fed funds rate will remain comfortably below the pace of nominal GDP growth.

Personal Income and Spending *All Data Seasonally Adjusted*	Sep-18	Aug-18	Jul-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.2%**	0.4%	0.3%	3.7%	4.0%	4.4%
Disposable (After-Tax) Income	**0.2%**	0.4%	0.3%	3.4%	4.0%	4.9%
Personal Consumption Expenditures (PCE)	**0.4%**	0.5%	0.5%	5.4%	5.8%	5.0%
Durables	**1.4%**	0.6%	0.5%	10.6%	6.8%	4.7%
Nondurable Goods	**0.3%**	0.2%	0.6%	4.3%	6.0%	4.7%
Services	**0.3%**	0.5%	0.4%	4.9%	5.6%	5.2%
PCE Prices	**0.1%**	0.1%	0.1%	1.5%	1.9%	2.0%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.0%	0.2%	1.4%	1.7%	2.0%
Real PCE	**0.3%**	0.4%	0.3%	3.8%	3.9%	3.0%

Source: Bureau of Economic Analysis