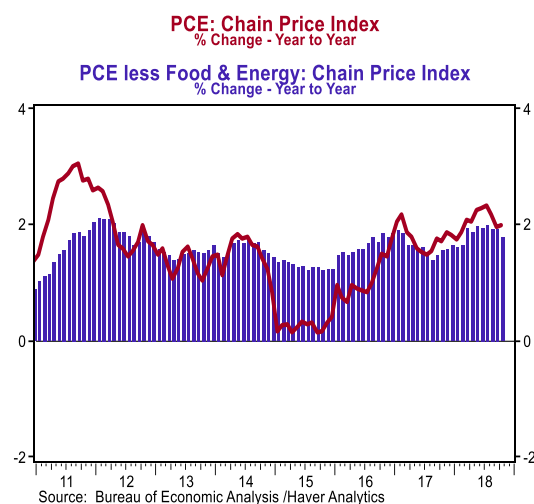
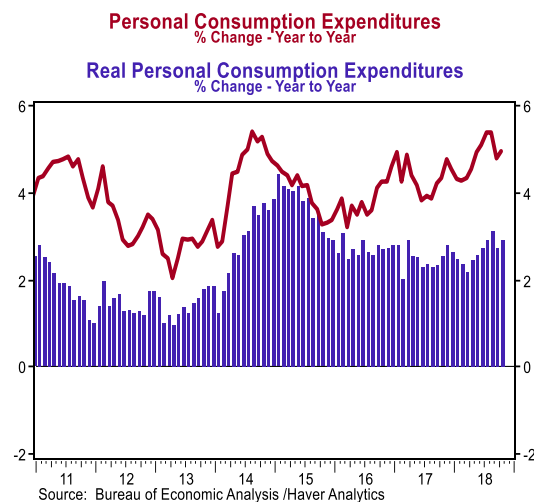


## October Personal Income and Consumption

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- Personal income rose 0.5% in October, while personal consumption increased 0.6%, both beating consensus expected gains of 0.4%. Personal income is up 4.3% in the past year, while spending is up 5.0%.
- Disposable personal income (income after taxes) rose 0.5% in October and is up 4.8% from a year ago. The gain in October was led by private-sector wages and salaries and government transfers.
- The overall PCE deflator (consumer prices) rose 0.2% in October and is up 2.0% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in October and is up 1.8% in the past year.
- After adjusting for inflation, “real” consumption rose 0.4% in October and is up 2.9% from a year ago.

**Implications:** Following a lull in September, both incomes and spending surged in October, rising 0.5% and 0.6%, respectively. To put that in perspective, those both tie for the highest readings of their respective series in 2018, and show healthy consumers heading into the holiday season. Breaking down the data shows that incomes were led by a 0.3% gain in private sector wages and salaries, a 0.6% gain in government transfers, and a 1.6% gain in proprietor’s income (think small businesses, partnerships, and farms). Farm income was notable in October, as it was boosted by a Department of Agriculture program to assist farmers affected by trade retaliations, pushing farm incomes up by the largest amount in more than five years. But even excluding this temporary boost, incomes were up 0.4% in the month. More important is that incomes are up a healthy 4.3% in the past year, and thanks to the tax cuts, after-tax income is up 4.2% over the last twelve months. And consumers are putting that extra spending power to work. Consumer spending rose 0.6% in October, led by increased spending on housing, healthcare, and recreation. 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 rose 0.6% in October. That said, government transfers continue to grow at a slower rate than wages and salaries, so while government transfers are up 4.2% 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 0.2% in October and is up 2.0% in the past year. “Core” prices, which exclude food and energy, are up 1.8% in the past year. Extra attention will be on economic and inflation data leading up to December Fed meeting, where we will get updated forecasts on where the Fed sees the economy – and rates – moving in 2019. In employment news this morning, initial jobless claims rose 10,000 last week to 234,000. Meanwhile, continuing claims rose 50,000 to 1.71 million. Despite the increases – which could have been impacted by recent holidays – we expect further strength in payroll growth in November. On the housing front, pending home sales (contracts on existing homes) fell 2.6% in October following a 0.7% rise in September. These reports suggest existing home sales, counted at closing, should move modestly lower in November.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-18	Sep-18	Aug-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.5%	0.2%	0.4%	4.5%	4.2%	4.3%
<b>Disposable (After-Tax) Income</b>	0.5%	0.2%	0.4%	4.4%	4.2%	4.8%
<b>Personal Consumption Expenditures (PCE)</b>	0.6%	0.2%	0.4%	5.0%	5.5%	5.0%
<b>Durables</b>	0.5%	-0.1%	0.3%	3.0%	2.8%	2.7%
<b>Nondurable Goods</b>	0.6%	0.2%	0.2%	4.1%	5.8%	5.4%
<b>Services</b>	0.7%	0.3%	0.4%	5.6%	5.8%	5.2%
<b>PCE Prices</b>	0.2%	0.1%	0.1%	1.6%	1.7%	2.0%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.1%	0.2%	0.0%	1.1%	1.5%	1.8%
<b>Real PCE</b>	0.4%	0.1%	0.3%	3.3%	3.7%	2.9%

Source: Bureau of Economic Analysis