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September Personal Income and Consumption

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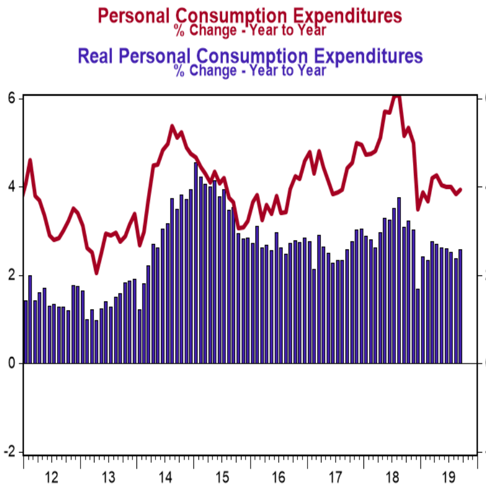
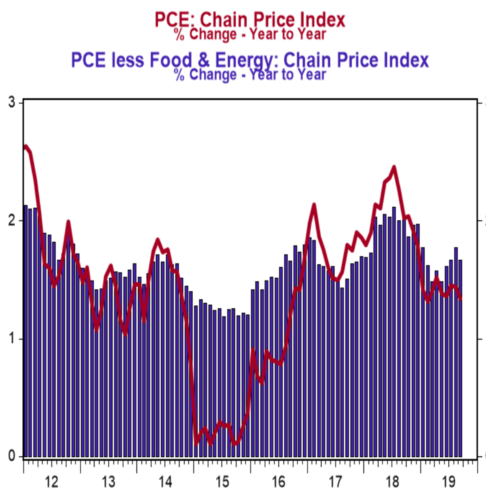
- Personal income rose 0.3% in September, matching consensus expectations. Personal consumption increased 0.2% in September, narrowly lagging consensus expectations. Personal income is up 4.9% in the past year, while spending has increased 3.9%.
- Disposable personal income (income after taxes) increased 0.3% in September and is up 4.9% from a year ago.
- The overall PCE deflator (consumer prices) remained unchanged in September but is up 1.3% versus a year ago. The "core" PCE deflator, which excludes food and energy, was also unchanged in September but is up 1.7% in the past year.
- After adjusting for inflation, "real" consumption increased 0.2% in September, and is up 2.6% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Implications: Treats, not trick, from this morning's reports, as incomes rose a healthy 0.3% in September following a 0.5% gain in August, and spending followed suit. And the gain in income came despite a $1.9 billion annualized downward impact from the United Auto Worker's strike. With that strike now in the books, the headwind to the data in September will become a tailwind in the months ahead. Even with the impact of the strike, incomes continue to march forward at a healthy clip, and are up 4.9% in the past year. Importantly, those gains have been led by private sector wages and salaries, which are up 5.7% in the past year. So, while wages and salaries saw little movement in September (income gains for the month were led by interest income, farm subsidies, and transfer payments), we chalk this up to monthly volatility, and the trend continues to show wages are the key factor driving incomes higher. Spending, meanwhile, rose 0.2% in September and is up 3.9% in the past year. Within spending, the strongest contributor to growth in August was durable goods, which rose 0.4%, led by new vehicles. Spending on services (which accounts for the majority of spending) rose a respectable 0.2% in September on the back of higher health care outlays. This is not the type of data that supports the rate cut we got from the Federal Reserve yesterday, and certainly doesn't signal any reason to believe a recession is nigh. Thankfully, the Fed signaled yesterday they now believe a pause is warranted until we see a material change in the economic outlook. Their greatest concern (outside of the China trade dispute and modest international growth – neither of which they are tasked with addressing) has been inflation, which continues to run below its 2% target. PCE prices were unchanged in September and are up 1.3% in the past year, while "core" prices, which exclude the volatile food and energy sectors, were unchanged in September but up 1.7% in the past twelve months. The more reliable "core" measure is what the Fed will be focused on, and that isn't far off the 2.0% target. In employment news this mornings, initial jobless claims rose 5,000 last week to 218,000, while continuing claims rose 7,000 to 1.690 million. Plugging this data into our models suggests nonfarm payrolls rose 85,000 in October, held down by the GM strikes, which will then provide a boost in November. On the manufacturing front, the Chicago PMI index fell to 43.2 from 47.1 in September. In spite of the decline, other regional manufacturing surveys were up in October, and we expect tomorrow's national ISM report to rise to 49.6 in October from 47.8 last month.

Personal Income and Spending *All Data Seasonally Adjusted*	**Sep-19**	**Aug-19**	**Jul-19**	**3-mo % ch. annualized**	**6-mo % ch. annualized**	**Yr to Yr % change**
Personal Income	**0.3%**	0.5%	0.1%	3.4%	4.3%	4.9%
Disposable (After-Tax) Income	**0.3%**	0.6%	0.2%	4.6%	4.6%	4.9%
Personal Consumption Expenditures (PCE)	**0.2%**	0.2%	0.5%	3.7%	4.8%	3.9%
Durables	**0.4%**	0.4%	0.3%	4.4%	6.0%	4.6%
Nondurable Goods	**-0.1%**	-0.1%	0.9%	2.6%	4.7%	3.4%
Services	**0.2%**	0.3%	0.4%	3.9%	4.7%	4.0%
PCE Prices	**0.0%**	0.0%	0.2%	1.1%	1.6%	1.3%
"Core" PCE Prices (Ex Food and Energy)	**0.0%**	0.1%	0.2%	1.6%	2.1%	1.7%
Real PCE	**0.2%**	0.2%	0.3%	2.6%	3.1%	2.6%

Source: Bureau of Economic Analysis