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October 30, 2020 • 630.517.7756 • www.ftportfolios.com

September Personal Income and Consumption

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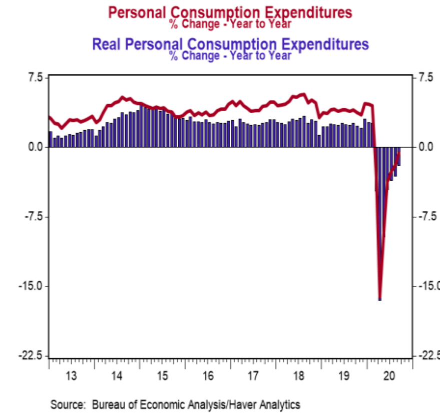
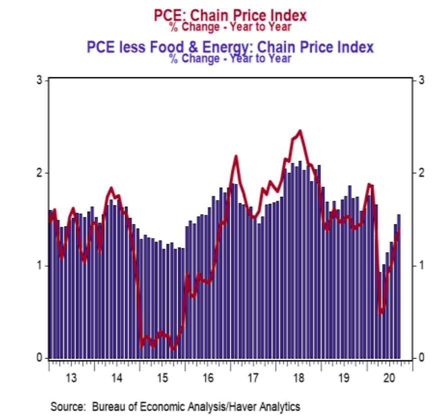
- Personal income rose 0.9% in September (+1.6% including revisions to prior months), easily beating the consensus expected increase of 0.4%. Personal consumption rose 1.4% in September (+1.5% including prior month revisions), beating the consensus expected gain of 1.0%. Personal income is up 6.2% in the past year, while spending has declined 0.6%.
- Disposable personal income (income after taxes) rose 0.9% in September, and is up 6.9% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in September and is up 1.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, also rose 0.2% in September and is up 1.5% in the past year.
- After adjusting for inflation, "real" consumption increased 1.2% in September, but is down 2.0% from a year ago.





Implications: Both incomes and spending saw a boost in September, as was suggested in yesterday's booming report on third quarter GDP. And the details of today's report were even better than the headline suggests. The rise in income was led by private-sector wages and salaries, which rose 1.0% in September and are up 10.3% from the April bottom (though still 3% below the February high). Arguably more important is that government transfer payments continued to fall in September. In other words, incomes rose in spite of declining payments out of Washington. Income growth through government transfer payments is not a sustainable path to economic recovery and a shift back toward jobs as a source of income is exactly what you would expect as the U.S. continues down the path of reopening. Outside of government transfer payments, personal income rose by 1.1% in September, led primarily by the increase of 661,000 jobs in September. Spending, too, rose in September. After declining by 19% in March and April, total spending is just 2.0% below February levels, and is down a 0.6% versus a year ago. There is clear evidence of damage from the shutdowns, but spending is consistently improving. The increase in spending in September was led by goods, as autos (+6.0%), and clothing & footwear (+7.3%) were key drivers. Spending on services – up 1.1% in September – continues to be driven higher by medical care and recreation services (think sports centers, parks, theatres, and museums). While spending across the major categories was mixed, a few highlights from the September report include spending on movie theatres (+137.5%), railway transportation (+35.8%), and rental cars (+12.1%), all signs of consumers getting back out and about. With spending growth continuing to outpace the rise in incomes, the saving rate declined to a (still elevated) 14.3% in September. This is down from 33.6% back in April, but still well above "normal" levels. On the inflation front, PCE prices rose 0.2% in September, are up 1.4% from a year ago, but up at a faster 3.0% annualized rate in the past three months. Core prices, which exclude food and, more importantly, the very volatile energy component, also rose 0.2% in September, are up 1.5% from a year ago, but have likewise accelerated of late, up 3.2% annualized over the past three months. We expect inflation will continue to trend higher in the months ahead, moving toward – and then above – the 2% year-to-year pace that historically stood as the Fed's target, though the Fed has recently changed the target to allow inflation to run above trend for a prolonged period of time without pressuring them to lift the federal funds rate. In other words, don't expect the faster pace of inflation to mean monetary policy will be tightening any time soon. On the manufacturing front, the Chicago PMI moved slightly lower to 61.1 in October from the September reading of 62.4 that represented a multi-year high. Putting this report and other regional surveys in our model suggests the national ISM Manufacturing index for October should rise to 56.2 versus 55.4 in September. In recent housing news, pending home sales, which are contracts signed on existing homes, declined 2.2% in September, but remain up a whopping 21.9% in the past year. Across the board, the data shows a recovery pushing forward, regardless of what the pouting pundits have to say about it.

Personal Income and Spending *All Data Seasonally Adjusted*	Sep-20	Aug-20	Jul-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.9%**	-2.5%	0.9%	-2.8%	11.4%	6.2%
Disposable (After-Tax) Income	**0.9%**	-2.9%	0.9%	-4.9%	13.0%	6.9%
Personal Consumption Expenditures (PCE)	**1.4%**	1.0%	1.5%	17.1%	10.3%	-0.6%
Durables	**3.0%**	0.9%	2.3%	27.6%	71.5%	14.8%
Nondurable Goods	**1.5%**	-0.3%	1.1%	9.4%	-0.1%	4.7%
Services	**1.1%**	1.5%	1.5%	17.8%	6.0%	-4.6%
PCE Prices	**0.2%**	0.3%	0.3%	3.0%	1.7%	1.4%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.3%	0.3%	3.2%	1.8%	1.5%
Real PCE	**1.2%**	0.7%	1.3%	13.6%	8.4%	-2.0%

Source: Bureau of Economic Analysis

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