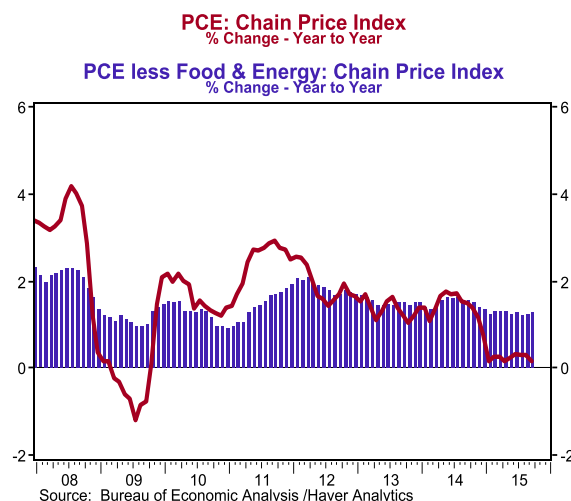
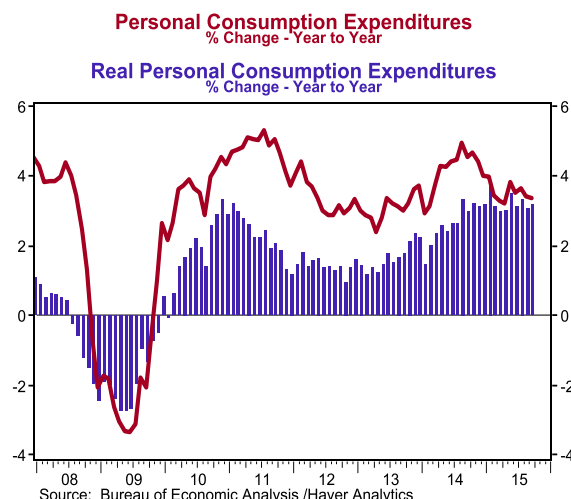


## September Personal Income and Consumption

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- Personal income and personal consumption both grew 0.1% in September, coming in below the consensus expected 0.2%. Personal income is up 4.1% in the past year, while spending is up 3.4%.
- Disposable personal income (income after taxes) increased 0.1% in September, and is up 3.6% from a year ago. The gain in September was led by small business income and dividends. Most other categories had small gains in September.
- The overall PCE deflator (consumer prices) declined 0.1% in September but is up 0.2% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in September and is up 1.3% in the past year.
- After adjusting for inflation, “real” consumption rose 0.2% in September (0.1% including revisions to prior months) and is up 3.2% from a year ago.



**Implications:** Incomes and spending continued to move higher in September. Although both came in slightly below what the consensus expected, they were consistent with yesterday’s GDP report, which included income and spending numbers for the third quarter as a whole. Income – which includes compensation of employees, rents, dividends, small business income, interest, and government transfer payments – increased 0.1% and is up 4.1% in the past year, faster than the 3.4% gain in consumer spending. In other words, recent gains in consumer spending have been driven by higher incomes. Although private-sector wages and salaries declined 0.1%, that follows five consecutive monthly gains. Wages and salaries are up 3.8% from a year ago and as payrolls continue to grow, wages should revert to growth next month. The worst news in today’s report was the continued failure to make progress against government redistribution. Although unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons are up 4.4% in the past year, largely driven by Obamacare. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – 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. This is why we have a Plow Horse economy, not a Race Horse economy. Moreover, the recent budget deal on Capitol Hill, although warmly received by establishment politicians and their cheerleaders in the media, suggests no progress against redistribution until at least 2017. On the inflation front, the PCE deflator, the Fed’s favorite measure, declined 0.1% in September. Although it’s only up 0.2% from a year ago, it continues to be held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.3% from a year ago. That’s below the Fed’s 2% inflation target, but we expect some acceleration in the coming year. As soon as energy prices stop falling, inflation is going to pick up, supporting the case for starting rate hikes in December. In other news today, the Chicago PMI, a measure of factory sentiment in that region came in at 56.2, the strongest reading since January and well above the consensus forecast of 49.5. The Chicago PMI has been below the key level of 50, signaling contraction, in five separate months so far this year, letting economic pessimists press their case. This month’s report, although only one month, severely undercuts their argument.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-15	Aug-15	Jul-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.1%</b>	0.4%	0.4%	3.7%	4.4%	4.1%
<b>Disposable (After-Tax) Income</b>	<b>0.1%</b>	0.4%	0.5%	4.0%	4.4%	3.6%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.1%</b>	0.4%	0.3%	3.3%	4.8%	3.4%
<b>Durables</b>	<b>0.8%</b>	0.3%	1.0%	8.8%	5.2%	4.3%
<b>Nondurable Goods</b>	<b>-1.2%</b>	0.0%	0.4%	-3.3%	2.7%	-1.1%
<b>Services</b>	<b>0.4%</b>	0.5%	0.2%	4.7%	5.3%	4.7%
<b>PCE Prices</b>	<b>-0.1%</b>	0.0%	0.1%	0.0%	1.2%	0.2%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.1%</b>	0.1%	0.1%	1.3%	1.5%	1.3%
<b>Real PCE</b>	<b>0.2%</b>	0.4%	0.2%	3.4%	3.5%	3.2%

Source: Bureau of Economic Analysis