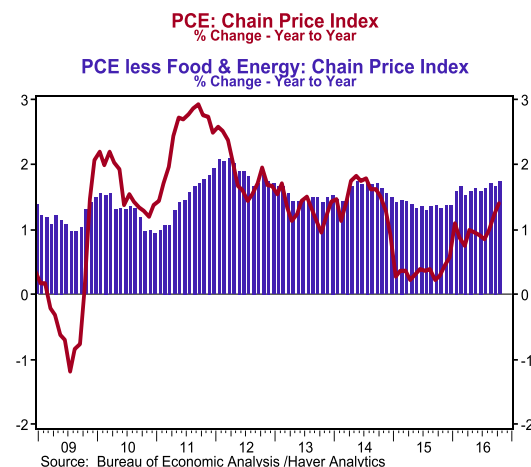
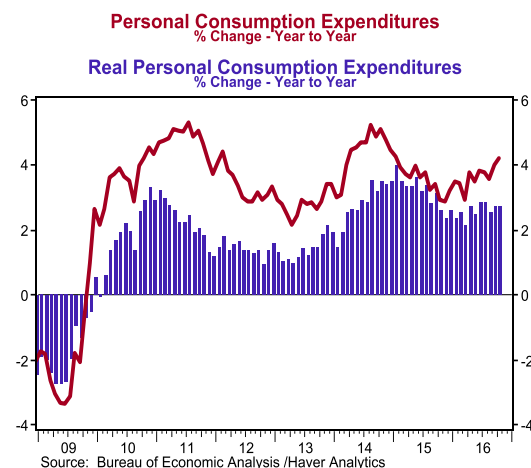


October Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Personal income increased 0.6% in October (+1.1% including revisions from prior months), beating the consensus expected 0.4%. Personal consumption rose 0.3% in October (+0.6% including revisions from prior months), versus a consensus expected 0.5%. Personal income is up 3.9% in the past year, while spending is up 4.2%.
- Disposable personal income (income after taxes) increased 0.6% in October and is up 4.1% from a year ago. The gain in October was led by private-sector wages & salaries and interest income.
- The overall PCE deflator (consumer prices) rose 0.2% in October and is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in October and is up 1.7% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in October and is up 2.8% from a year ago.

Implications: Another solid month of income and spending gains for consumers, with incomes up 0.6% and spending up 0.3%. Incomes are up 3.9% in the past year and up at a 5% annual rate in the past six months, suggesting a strong Christmas. We expect continued strong gains in the year ahead as the labor market tightens. In turn, consumer spending, up 4.2% in the past year, will continue to grow as well. Perhaps the biggest news in today’s report was on inflation. The PCE deflator, the Fed’s favorite measure of inflation, rose 0.2% in October. Although it’s only up 1.4% from a year ago, it was up only 0.3% in the year ending in October 2015, so inflation has clearly accelerated. In fact, in the past six months PCE prices are up at a 1.9% annual rate, very close to the Fed’s long-term target of 2%. In the past three months, these prices are up at a 2.4% rate. Meanwhile, the “core” PCE deflator, which excludes food and energy, is up 1.7% from a year ago. We expect continued acceleration in year-ago comparison measures of inflation over the next several months. Together with continued employment gains, these figures support the case for the Fed to raise short-term rates in December. The one consistent dark cloud in the income reports has been government redistribution. While unemployment compensation is the lowest since 2001, overall government transfers to persons are up 4% in the past year. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – 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 and, among those getting the transfers, weakens work incentives. That’s why we have a Plow Horse economy, not a Race Horse economy. In other news this morning, the ADP report said private payrolls were up 216,000 in November. Plugging all these figures into our models suggests Friday’s report on nonfarm payrolls will show a gain of about 188,000 for November. We’ll be finalizing our payrolls forecast after tomorrow morning’s report on jobless claims. However, keep in mind that initial reports on November payrolls are usually revised up in later months, so future reports will likely show payrolls up more than 200,000 for the month.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-16	Sep-16	Aug-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.6%	0.4%	0.3%	5.1%	5.0%	3.9%
Disposable (After-Tax) Income	0.6%	0.4%	0.2%	4.9%	4.8%	4.1%
Personal Consumption Expenditures (PCE)	0.3%	0.7%	0.0%	4.2%	4.5%	4.2%
Durables	1.0%	2.1%	-1.5%	6.4%	7.2%	5.7%
Nondurable Goods	1.4%	0.7%	0.1%	9.3%	4.8%	3.1%
Services	-0.2%	0.5%	0.3%	2.3%	4.0%	4.3%
PCE Prices	0.2%	0.2%	0.2%	2.4%	1.9%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.2%	1.6%	1.6%	1.7%
Real PCE	0.1%	0.5%	-0.1%	1.7%	2.6%	2.8%

Source: Bureau of Economic Analysis