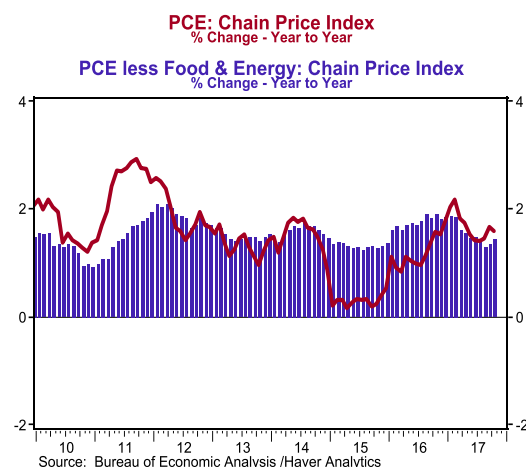
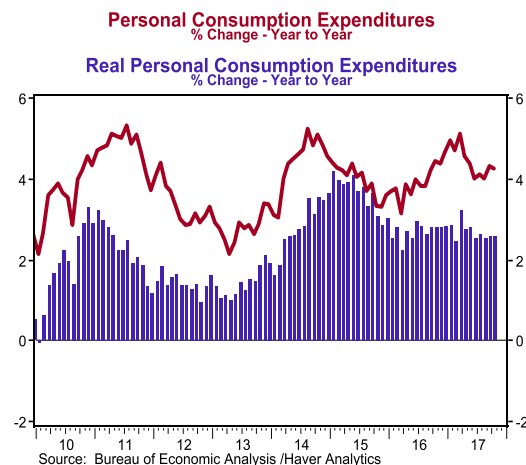


## October Personal Income and Consumption

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- Personal income rose 0.4% in October (0.3% including revisions to prior months), beating the consensus expected 0.3%. Personal consumption increased 0.3% (+0.2% including prior months' revisions), matching consensus expectations. Personal income is up 3.4% in the past year, while spending is up 4.2%.
- Disposable personal income (income after taxes) rose 0.5% in October and is up 3.2% from a year ago. The gain in October was led by private sector wages and salaries.
- The overall PCE deflator (consumer inflation) rose 0.1% in October and is up 1.6% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.2% in October and is up 1.4% in the past year.
- After adjusting for inflation, "real" consumption rose 0.1% in October and is up 2.6% from a year ago.

**Implications:** Consumers enjoyed rising wages and healthy spending in October, following a storm-boosted September report. Consumer spending rose 0.3% in October, a slower pace of spending growth than we saw in September, but remember that September spending was boosted by the replacement of vehicles destroyed by hurricanes Harvey and Irma. Spending in October - led by housing, groceries, and prescription drugs - came despite a headwind from slower auto and gasoline sales. Meanwhile incomes rose 0.4% in October, led by private sector wages & salaries as well as interest income. Both incomes and spending have been heating up in recent months, with income rising at a 4.2% annual rate in the past three months, and spending up at a 5.5% annual rate over the same period. We expect to see healthy growth in the coming months, especially if meaningful tax cuts and reform come out of Washington. While some will bemoan that spending has outpaced income growth in the past few months, and has risen at a faster pace in the past year, stories about problems with the consumer are way overblown. Yes, consumer debts are at a record high in raw dollar terms, but so are consumer assets. Comparing the two, debts are the lowest relative to assets since 2000 (and that's back during the internet bubble when asset values were artificially high). Meanwhile, the financial obligations ratio - which compares debt and other recurring payments to income - is still hovering near the lowest levels of the past 35 years. In other words, consumers still have room to increase spending, and steadily rising incomes will continue to boost spending power in the months ahead. On the inflation front, the overall PCE deflator rose 0.1% in October and is up 1.6% in the past year. While that is modestly below the Fed's 2% inflation target, the pace of inflation has been rising in recent months and provides clear backing for the Fed to continue with rate hikes. In other news this morning, the Chicago PMI, which measures manufacturing sentiment in that region, fell in November to a still strong 63.9. Plugging this into our model along with other recent data, we expect tomorrow's national ISM Manufacturing index to show continued robust growth for November. In employment news this morning, new claims for jobless benefits fell 2,000 last week to 238,000. Meanwhile, continuing claims rose 42,000 to 1.96 million. Look for another solid month of job growth in November.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-17	Sep-17	Aug-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.4%</b>	0.4%	0.2%	4.2%	3.2%	3.4%
<b>Disposable (After-Tax) Income</b>	<b>0.5%</b>	0.4%	0.1%	4.0%	3.0%	3.2%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.3%</b>	0.9%	0.2%	5.5%	4.2%	4.2%
<b>Durables</b>	<b>-0.1%</b>	2.9%	-1.4%	5.4%	5.6%	3.8%
<b>Nondurable Goods</b>	<b>0.2%</b>	1.3%	0.9%	10.0%	4.4%	4.2%
<b>Services</b>	<b>0.3%</b>	0.4%	0.2%	4.1%	3.9%	4.3%
<b>PCE Prices</b>	<b>0.1%</b>	0.4%	0.2%	3.0%	1.7%	1.6%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.2%	0.1%	1.9%	1.6%	1.4%
<b>Real PCE</b>	<b>0.1%</b>	0.5%	0.0%	2.3%	2.5%	2.6%

Source: Bureau of Economic Analysis