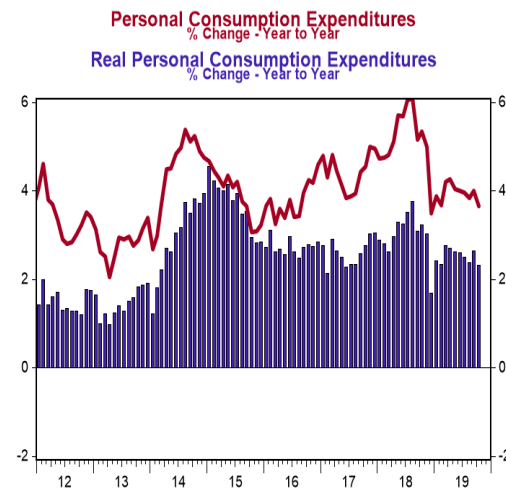


## October Personal Income and Consumption

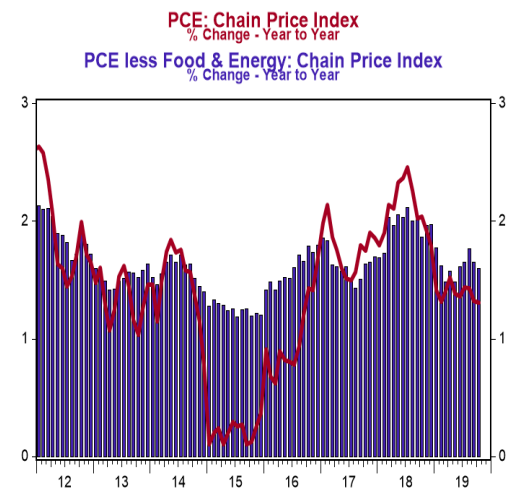
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- Personal income was unchanged in October, lagging the consensus expected rise of 0.3%. Personal consumption increased 0.3% in October, matching consensus expectations. Personal income is up 4.4% in the past year, while spending has increased 3.7%.
- Disposable personal income (income after taxes) declined 0.1% in October, but is up 4.1% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in October and is up 1.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in October and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in October and is up 2.3% from a year ago.

**Implications:** Consumers have plenty to be thankful for heading into the holiday season, and they are well positioned to take advantage of Black Friday sales. While personal income was unchanged in October, the underlying details were more positive. Private sector wages and salaries rose 0.4% in October (aided by the end of the United Auto Workers Strike), and are up 5.2% in the past year. The rise in wages in October was offset by declines in personal interest and farm proprietors’ income. Higher wages continue to promote spending, which rose 0.3% in October. A pickup in outlays on services was partially offset by a slowdown in spending on goods (notably, spending on new cars fell on the month). Incomes are up 4.4% in the past year, while spending has increased by 3.7%, both healthy numbers. And it’s important to remember that households de-levered following the recession, bringing financial obligations (think mortgages, car loans, etc.) to near multi-decade lows as a share of after-tax income. The strong labor market simply has more people working more hours for more pay. That math - aided by the improved tax and regulatory environment that went in place in 2018 - supports continued economic growth. One area the Fed has been keeping a keen eye on is inflation, which continues to run below its 2% target. PCE prices rose 0.2% in October, but are up just 1.3% in the past year. “Core” prices, which exclude the volatile food and energy sectors, rose 0.1% in October and are up 1.6% 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. Add in other reports on the economy like today’s releases on GDP and durable goods, and you can understand why the Fed is on pause for the time being. Strong consumers, rising wages, tame inflation. There is plenty to give thanks for tomorrow. On the manufacturing front, the Chicago PMI index rose to 46.3 from 43.2 in October. Pairing this with data from other regional manufacturing surveys suggests next week’s national ISM report will show a rise to 49.9 in November from 48.8 last month. In housing news, pending home sales, which are contracts on existing homes, declined 1.7% in October after a 1.4% gain in September. Despite the decline, we still expect existing home sales (counted at closing) will rise modestly in November.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-19	Sep-19	Aug-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.0%	0.3%	0.5%	3.3%	3.1%	4.4%
<b>Disposable (After-Tax) Income</b>	-0.1%	0.3%	0.6%	3.5%	3.4%	4.1%
<b>Personal Consumption Expenditures (PCE)</b>	0.3%	0.2%	0.2%	2.9%	4.0%	3.7%
<b>Durables</b>	-0.7%	1.2%	0.2%	2.8%	6.0%	4.2%
<b>Nondurable Goods</b>	0.6%	-0.5%	0.0%	0.5%	3.0%	2.8%
<b>Services</b>	0.3%	0.3%	0.3%	3.7%	4.1%	3.8%
<b>PCE Prices</b>	0.2%	0.0%	0.0%	0.8%	1.3%	1.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.1%	0.0%	0.1%	1.0%	1.7%	1.6%
<b>Real PCE</b>	0.1%	0.2%	0.2%	2.1%	2.7%	2.3%

Source: Bureau of Economic Analysis