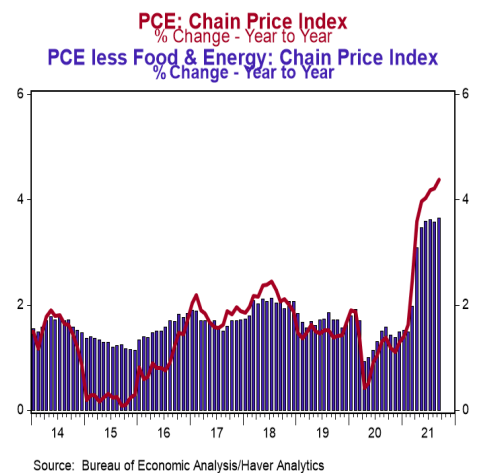
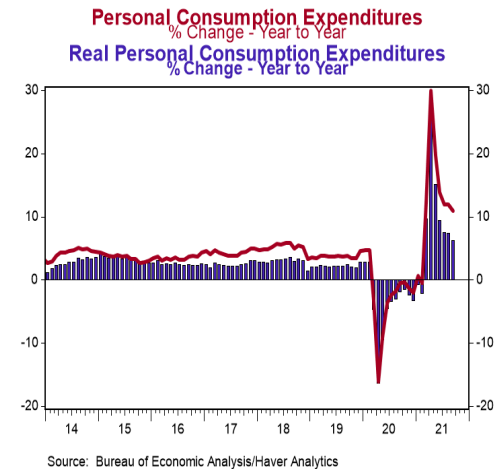


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September Personal Income and Consumption

- Personal income declined 1.0% in September (-1.1% including prior months' revisions), coming in below the consensus expected -0.3%. Personal consumption rose 0.6% in September (+0.9% including prior months' revisions), matching consensus expectations. Personal income is up 4.2% in the past year, while spending has increased 10.9%.
- Disposable personal income (income after taxes) declined 1.3% in September, but is up 2.3% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in September and is up 4.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.2% in September and is up 3.6% in the past year.
- After adjusting for inflation, "real" consumption rose 0.3% in September and is up 6.2% from a year ago.



Implications: Personal income fell 1.0% in September but the details show it's nothing to get worked up about. Supplemental unemployment benefits – Pandemic Unemployment Assistance (PUA) and Pandemic Emergency Unemployment Compensation (PEUC) – ended nationally on September 6, resulting in a 7.2% decline in government transfer payments. Meanwhile, and far more important and sustainable, private-sector wages and salaries rose 0.9% and are now up a whopping 10.5% in the past year. And the ending of checks from Washington didn't seem to hamper spending, which rose 0.6% in September as consumption of both goods and services increased. How can spending keep rising when income was down? Three main reasons: jobs are still growing, wages are going up quickly, and some people saved transfer payments they received during COVID, giving them more (temporary) spending power. With spending rising while income fell, the savings rate declined to 7.5% in September, falling to pre-COVID levels for the first time since February of 2020. On the inflation front, PCE prices grew 0.3% in September, and are up 4.4% from a year ago. Core prices, which exclude food and energy, rose 0.2% in September and are up 3.6% from a year ago. While the massive impact of shutdowns last year muddies the inflation picture, a look at price pressures over the past six months (which reduces the "base effect" impact), shows an even more profound rise in inflation, with overall PCE prices up at a 5.6% annualized rate. In other words, inflation also reflects the loose stance of monetary policy in addition to the imbalance in supply and demand. Given the progress in the labor market, with steeply falling jobless claims, since the Federal Reserve last met, we expect it to announce the start of tapering next week, with quantitative easing fully done around mid-2022. In other news out this morning, the Chicago PMI – a measure of factory sentiment in that region – rose to 68.4 in October from 64.7 in September. Also on the manufacturing front yesterday, the Kansas City Fed Index jumped to 31 in October from a reading of 22 in September. Plugging these figures into our models suggests next week's national ISM index will come in at an above-consensus 60.6. On the housing front, pending home sales, which are contracts on existing homes, declined 2.3% in September, suggesting a slight softening of existing home sales (counted at closing) in October. One more key report out this morning was the Employment Cost Index, which rose 1.3% in the third quarter, the largest increase for any quarter in twenty years and a sign that monetary policy is too loose.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Sep-21	Aug-21	Jul-21	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	-1.0%	0.2%	1.1%	0.9%	-28.0%	4.2%
Disposable (After-Tax) Income	-1.3%	0.1%	1.1%	-0.5%	-32.1%	2.3%
Personal Consumption Expenditures (PCE)	0.6%	1.0%	0.1%	6.7%	7.9%	10.9%
Durables	-0.2%	0.4%	-3.9%	-13.9%	-12.7%	11.8%
Nondurable Goods	0.9%	2.3%	-0.9%	9.6%	7.6%	12.7%
Services	0.6%	0.6%	1.2%	10.2%	12.7%	10.1%
PCE Prices	0.3%	0.3%	0.4%	4.4%	5.6%	4.4%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.3%	0.3%	3.3%	5.1%	3.6%
Real PCE	0.3%	0.6%	-0.3%	2.2%	2.2%	6.2%

Source: Bureau of Economic Analysis