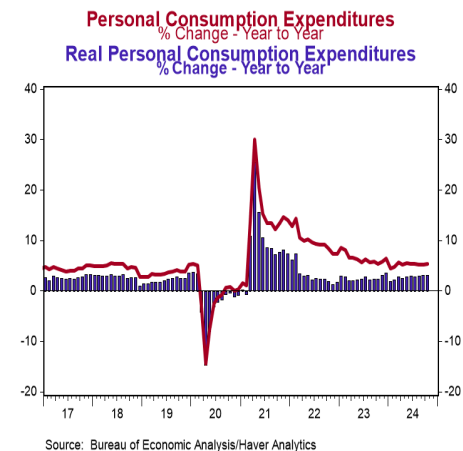
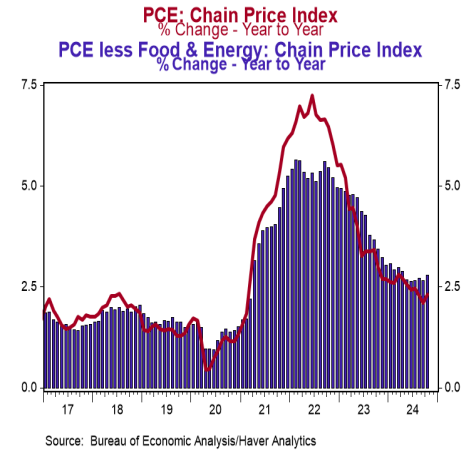


## October Personal Income and Consumption

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- Personal income rose 0.6% in October, easily beating the consensus expected +0.3%. Personal consumption rose 0.4% in October, matching consensus expectations. Personal income is up 5.3% in the past year, while spending has increased 5.4%.
- Disposable personal income (income after taxes) rose 0.7% in October and is up 5.1% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in October and is up 2.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.3% in October and is up 2.8% in the past year.
- After adjusting for inflation, “real” consumption rose 0.1% in October and is up 3.0% from a year ago.

**Implications:** Strong income gains heading into the holiday season give consumers something to be thankful for. Personal income rose 0.6% in October and is up 5.3% in the past year. Private-sector wages and salaries led the way, up 0.5% on the month and up 5.5% in the past year. Unfortunately, government activity continues to run hot as well, as government pay also rose 0.5% in October and is up 6.3% in the past year, hovering near the largest twelve-month increase in decades. At the same time, government benefit payments to individuals are up 7.8% and are accelerating in the past year, the largest 12-month increase (excluding the COVID stimulus period) in more than a decade. We don’t think the growth in government pay – or massive government deficit spending – is either sustainable or good for the US economy. On the spending side, consumption rose 0.4% in October, led by outlays on services which increased 0.5% on the month and are up 7.0% in the past year. Goods spending was unchanged in October and up a more modest 2.0% from a year ago. That said, a lot October spending growth came as a result of higher prices. PCE prices, the Fed’s preferred measure of inflation, rose 0.2% in October, so when adjusting for inflation, consumption rose just 0.1% in October. PCE prices are up 2.3% in the past year, compared to a 3.0% increase in the year ending in October 2023. “Core” prices, which exclude the ever-volatile food and energy categories, rose 0.3% in October and are up 2.8% versus a year ago, an improvement from the 3.4% reading for the twelve months ending October 2023. But while year-ago comparisons have improved, it’s important to note that the pace of inflation in October – both headline and core – still represents prices rising at a faster than 2.0% annualized rate. While the Fed believes they have room to continue cutting rates in the meetings ahead, the battle against inflation has not been won, and risks remain that an overly aggressive path of cuts could bring with them a pickup in the M2 measure of money, and with it a return of more inflation pressure. On the housing front, pending home sales, which are contracts on existing homes, rose 2.0% in October following a 7.5% surge in September. Plugging these figures into our model suggests existing home sales, which are counted at closing, will rise in November, although they’ll remain low by historical standards.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Oct-24	Sep-24	Aug-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.6%</b>	0.3%	0.2%	4.4%	3.7%	5.3%
<b>Disposable (After-Tax) Income</b>	<b>0.7%</b>	0.3%	0.1%	4.4%	3.4%	5.1%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.4%</b>	0.6%	0.2%	4.9%	5.1%	5.4%
<b>Durables</b>	<b>0.3%</b>	1.5%	-0.9%	3.5%	5.8%	2.9%
<b>Nondurable Goods</b>	<b>-0.2%</b>	0.8%	-0.4%	0.5%	2.2%	1.6%
<b>Services</b>	<b>0.5%</b>	0.5%	0.6%	6.5%	5.9%	7.0%
<b>PCE Prices</b>	<b>0.2%</b>	0.2%	0.1%	2.2%	1.6%	2.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.3%</b>	0.3%	0.2%	2.8%	2.3%	2.8%
<b>Real PCE</b>	<b>0.1%</b>	0.5%	0.1%	2.7%	3.5%	3.0%

Source: Bureau of Economic Analysis