

Economics Group

Eugenio J. Alemán, Senior Economist
eugenio.j.aleman@wellsfargo.com • (704) 410-3273
 Michael A. Brown, Economist
michael.a.brown@wellsfargo.com • (704) 410-3278

Strong Income Growth in October, Spending Not so Good

Personal income and disposable personal income increased 0.6 percent in October while real disposable personal income was up 0.4 percent. Growth in spending was a bit more muted, up 0.3 percent.

Personal Income Stronger Than Expected

Personal income growth was stronger than expected in October, up 0.6 percent versus expectations of only 0.4 percent. Disposable personal income was also up 0.6 percent, while adjusted for price changes it was up 0.4 percent. The increase in personal income was motorized by a strong increase in wages and salaries in the service sector, up \$32.0 billion, while wages and salaries in goods industries increased a relatively robust \$9.7 billion, with \$6.1 billion of that increase coming from the manufacturing sector.

Two other notable contributors to October's improvement in personal income were personal income receipts on assets, up a very strong \$27.8 billion during the month, and personal current transfer receipts, up \$13.3 billion, which were driven by a \$9.7 billion increase in social security benefits.

Spending Disappoints in October

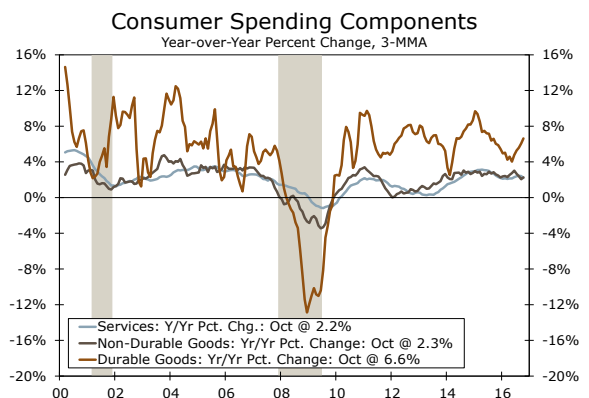
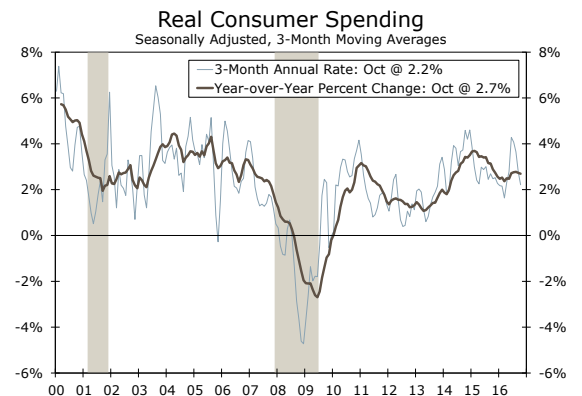
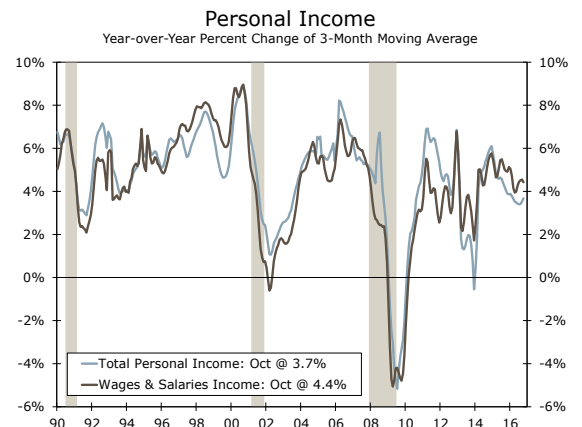
After a strong revision for real third quarter personal consumption expenditures earlier this week, up 2.8 percent versus 2.1 percent, October's personal spending result was disappointing, coming in at 0.3 percent in nominal terms and at only 0.1 percent in real terms, with both numbers missing expectations on the downside.

Spending in goods was actually stronger in October, up \$52.2 billion, than in September, up \$48.3 billion, driven by an increase of \$37.6 billion in non-durable goods consumption, up from \$18.8 billion in September. Meanwhile, durable goods consumption was more muted, up only \$14.6 billion compared to an increase of \$29.4 billion in September.

The real difference for personal consumption expenditures during the month of October was the surprise drop in services consumption, down \$14.1 billion after an increase of \$41.2 billion in September. Some of the blame for this weak services consumption print could be put on the relatively warmer weather in October which likely affected consumption of utilities during the month. We have already seen the Industrial Production Index for October, and the weak reading on public utilities output during the month is a clear signal that the strong decline on services consumption, by \$14.1 billion, could be partially explained by weather related issues. However, this may not be the only reason for the weakness in services consumption, so we may have to wait and see what happened in November.

Personal Consumption Slow Start to Q4

Most of the strength in personal consumption in the third quarter occurred in September, up 0.5 percent in real terms. The start to the last quarter of the year was not promising but we do not think this result will change expectations regarding PCE during the last quarter of the year.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC, is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC, and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2016 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS
FARGO

SECURITIES