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Economics Group

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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

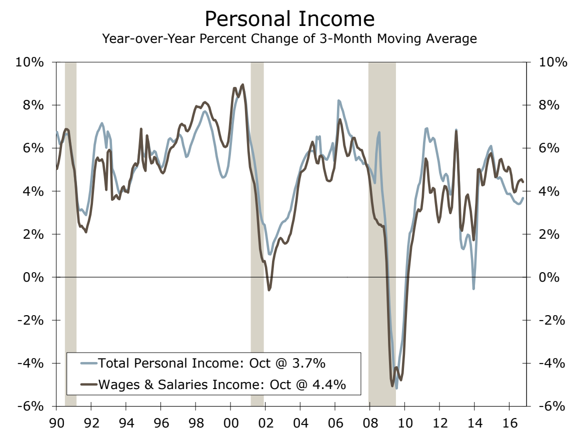
After a strong revision for real third quarter personal consumption expenditures earlier this week, up 2.8 percent versus 2.1 percent, October's personal spending result was disappointing, coming in at 0.3 percent in nominal terms and at only 0.1 percent in real terms, with both numbers missing expectations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

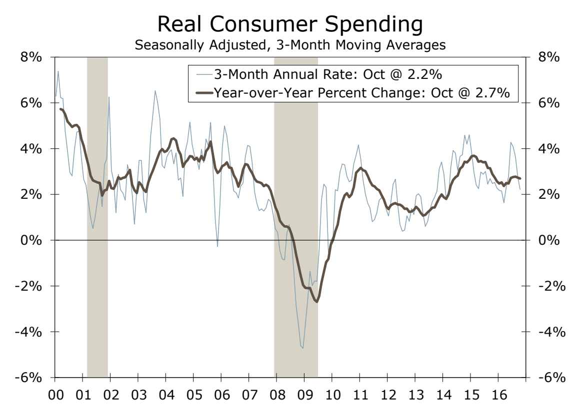
Spending in goods was actually stronger in October, up $52.2 billion, than in September, up $48.3 billion, driven by an increase of $37.6 billion in non-durable goods consumption, up from $18.8 billion in September. Meanwhile, durable goods consumption was more muted, up only $14.6 billion compared to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

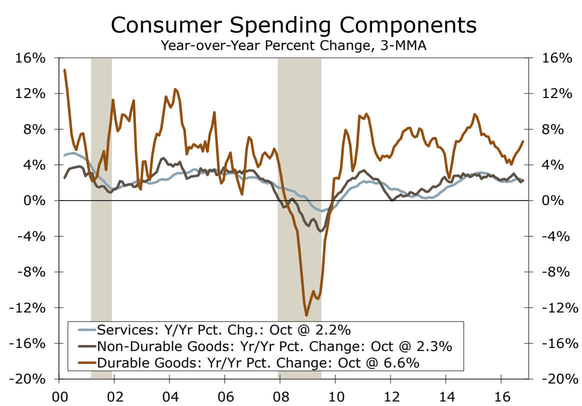
The real difference for personal consumption expenditures during the month of October was the surprise drop in services consumption, down $14.1 billion after an increase of $41.2 billion in September. Some of the blame for this weak services consumption print could be put on the relatively warmer weather 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.







Source: U.S. Department of Commerce and Wells Fargo Securities

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