ECONOMIC UPDATE
REGIONS
October 27, 2023

September Personal Income/Spending: Not Necessarily Buying September Spending Data

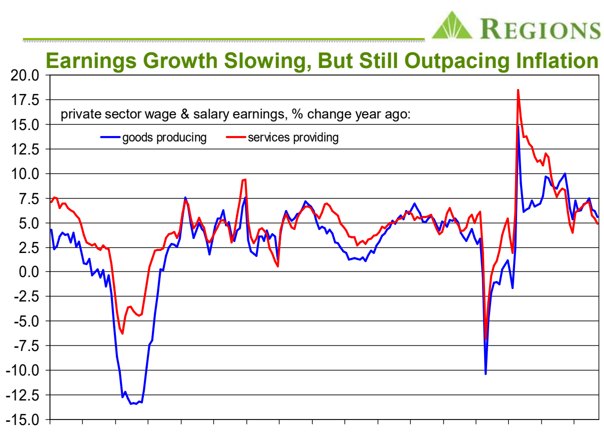
- Personal income rose by 0.3 percent in September, personal spending rose by 0.7 percent, and the saving rate fell to 3.4 percent
- The PCE Deflator rose by 0.4 percent and the core PCE Deflator rose by 0.3 percent in September; on an over-the-year basis, the PCE Deflator is up 3.4 percent and the core PCE Deflator is up 3.7 percent

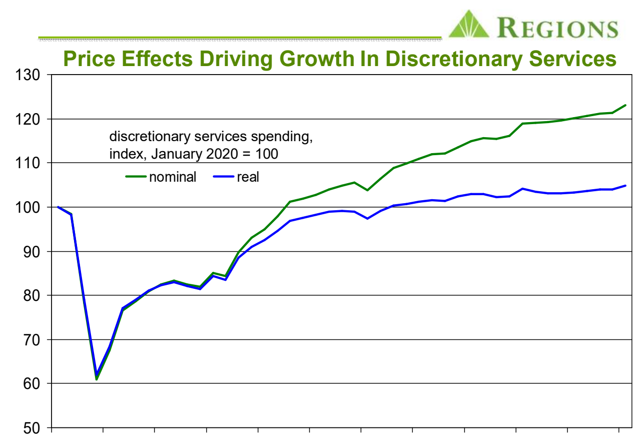
Total personal income rose by 0.3 percent in September, a notch below the 0.4 percent increase we and the consensus expected, while total personal spending rose by 0.7 percent, slightly stronger than our above-consensus forecast of a 0.6 percent increase. With spending growth outpacing income growth, the personal saving rate fell to 3.4 percent in September from 4.0 percent in August. The PCE Deflator, the FOMC's preferred gauge of inflation, rose by 0.4 percent in September, surprising to the upside, while the core PCE Deflator rose by 0.3 percent which, while as anticipated was the largest increase in four months. This puts the total PCE Deflator up 3.4 percent year-on-year, while the core PCE Deflator is up 3.7 percent. One element of the income data that stands out is the 0.1 percent decline in real disposable (after-tax) personal income, which marks the fourth straight monthly decline despite growth in labor earnings continuing to outpace inflation. The September data on personal income and spending were incorporated into the initial estimate of Q3 GDP released by the BEA yesterday, so in that sense are "old news." The September data are, however, worthy of attention in that they set the jumping off point for Q4 income and spending. While the 0.4 percent increase in real spending in September sets a seemingly solid base, we look for monthly spending growth to slow over the course of Q4.

Aggregate wage and salary earnings rose by 0.4 percent in September, with private sector earnings up by 0.3 percent and public sector earnings up by 0.7 percent. It is interesting to note that across the private sector, wage growth remains faster amongst the goods producing industries than amongst the services providing industries, this despite the contention of many that wage pressures are a, if not the, primary source of services price inflation. Though slowing across industry groups, aggregate wage and salary earnings continue to easily run ahead of inflation. This is a point often missed given the almost singular focus on average hourly earnings, which is that in terms of income and spending growth, it is aggregate earnings, of which hourly earnings are but one of three component parts, that matter. While many had been forecasting recession based in part on the premise that consumers would crumble under the weight of inflation, our focus on aggregate earnings growth led us to a different conclusion. We will note that, as we discussed in this week's *Economic Preview*, transfer payments have been a drag on growth in total personal income over recent months, reflecting many states paring Medicaid benefit roles and trimming SNAP benefits. We had anticipated a modest increase in transfer payments in September, but they instead fell by 0.1 percent, accounting for our miss on our forecast of income growth. It should also be noted that falling unemployment insurance payouts have also acted as a drag on transfer payments over the past five months, an indication that, while cooling, labor market conditions remain healthy.

Consumer spending on goods rose by 0.7 percent in September while spending on services was up by 0.8 percent. Spending on motor vehicles and recreational vehicles and equipment bolstered spending on consumer durable goods, while gasoline outlays were a drag on goods spending. Services spending was led by spending on lodging, dining out, and transportation services, including air fares. Here too, however, there is evidence of seasonal adjustment flattering measured outlays. These categories factor into our proxy for discretionary services spending, which rose by 1.4 percent on a nominal basis in September. Adjusted for price changes, our proxy for discretionary service spending rose by 0.8 percent in September, and with September's increase Q3 saw annualized growth of 3.6 percent after real discretionary services spending fell in Q2.

Aside from seasonal adjustment issues, higher prices helped account for the growth in nominal discretionary services spending in September, with large price increases reported for air fares (up 5.3 percent), lodging (up 3.4 percent), and a less hefty but still noteworthy 0.6 percent increase in prices for recreational services. As indicated in our second chart below, higher prices have accounted for the bulk of growth in discretionary services spending since it began to recover after plunging with the onset of the pandemic. Should demand for discretionary services slow in the months ahead as we expect will be the case, providers of such services will likely find themselves wielding considerably less pricing power than they have enjoyed over the past several quarters.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com