ECONOMIC UPDATE

REGIONS

November 30, 2023

October Personal Income/Spending: As Expected, Further Signs Of A Q4 Slowdown

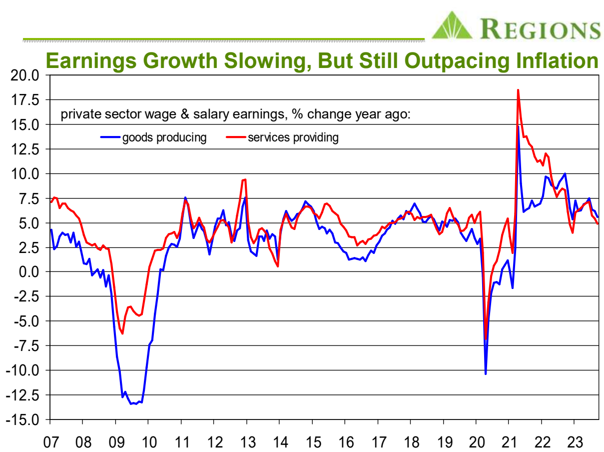
- Personal income rose by 0.2 percent in October, personal spending rose by 0.2 percent, and the saving rate rose to 3.8 percent
- The PCE Deflator was unchanged and the core PCE Deflator rose by 0.2 percent in October; on an over-the-year basis, the PCE Deflator is up 3.0 percent and the core PCE Deflator is up 3.5 percent

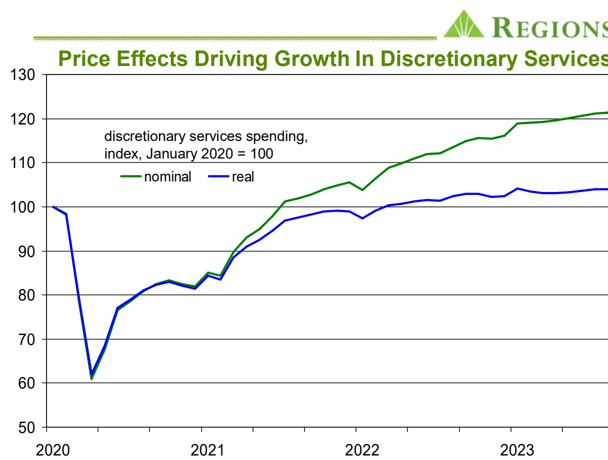
Total personal income rose by 0.2 percent in October, matching what we and the consensus expected, while total personal spending was up by 0.2 percent, ahead of the 0.1 percent increase we expected but matching the consensus forecast. The personal saving rate edged up to 3.8 percent in October from 3.7 percent in September. The PCE Deflator, the FOMC's preferred gauge of inflation, was flat in October, softer than the 0.1 percent increase we and the consensus expected, while the core PCE Deflator rose by 0.2 percent, in line with expectations. On an over-the-year basis, the PCE Deflator is up 3.0 percent and the core PCE Deflator is up 3.5 percent. Real, or, inflation adjusted, consumer spending rose by 0.2 percent in October, and while this was a tick higher than expected it nonetheless sets Q4 growth in real consumer spending on a much more sedate path than was the case in Q3. The revised GDP data show real consumer spending grew at an annual rate of 3.6 percent in Q3, and we're looking for growth of less than half that rate in Q4, which in turn will contribute to markedly slower top-line real GDP growth, which is neither surprising nor concerning after a 5.2 percent Q3 growth print. The main question at this point is the extent to which growth will slow in Q4 and what the knock-on effects on the labor market and inflation will prove to be, and it is simply too soon to have a reasonable answer to that question.

As our forecast anticipated, aggregate private sector wage and salary earnings were flat in October, doomed by the combination of a meager increase in private sector payrolls, paltry growth in average hourly earnings, and a decline in average weekly hours. Reflecting what has been faster job growth over the past several months, public sector wage and salary earnings were up by 0.7 percent, pushing the year-on-year increase to 8.0 percent. Though having slowed, growth in private sector wage and salary earnings, at 5.4 percent in October, continues to easily outpace inflation. As we discussed in our weekly *Economic Preview*, declining transfer payments remain a drag on growth in total personal income. Transfer payments fell by 0.1 percent in October, the sixth decline in the past seven months, reflecting the ongoing culling of what had been pandemic-related expansions of SNAP and Medicaid beneficiary roles. We do, however, think this drag to be subsiding, meaning that transfer payments should transition to a modest tailwind for growth in total personal income in the months ahead. As our forecast anticipated, asset-based income rose by 0.8 percent in October, on a rebound in dividend income and another solid increase in interest income.

Consumer spending on goods fell by 0.2 percent in September with spending on consumer durable goods down by 0.5 percent and spending on nondurable consumer goods flat. In line with the data on October retail sales, lower outlays on motor vehicles and household furnishings and appliances dragged down overall spending on consumer durables. The steep decline in prices made it a given that gasoline would be a drag on spending on nondurable goods, but the magnitude of that drag was less severe than implied by the drop in prices. Discretionary services spending was up by 0.6 percent, and while this was considerably smaller than the 1.4 percent increase seen in September, it was still stronger than we expected. This helped push total services spending up by 0.4 percent, a tick higher than we expected, hence our miss on growth in total spending.

To our point above, gasoline prices were down by 4.9 percent in October, acting as a material drag on the PCE Deflator. Core goods prices were flat in October, with prices for consumer durable goods down by 0.3 percent. Core services prices were up by 0.2 percent in October, leaving them up 4.6 percent year-on-year, which is the smallest such increase since October 2021. Excluding housing costs, services prices were up 3.7 percent year-on-year, the smallest such increase since March 2021. It seems clear that inflation pressures continue to subside even beyond the break being provided by falling energy prices. At this point, however, the markets are far more confident that the broader deceleration in inflation will stick than the FOMC is, which is being reflected in movements in market interest rates. PCE inflation, headline and core, is shaping up to be much slower in Q4 than anticipated in the most recent round of FOMC projections. This sets up an interesting dynamic for the December FOMC meeting, with the FOMC set to issue an updated set of projections but still hesitant to sound overly confident in their inflation outlook.





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