

# U.S. Data Review

- Personal income & consumption: firm income growth; light spending on services
- PCE prices: headline inflation creeping up; core inflation stable

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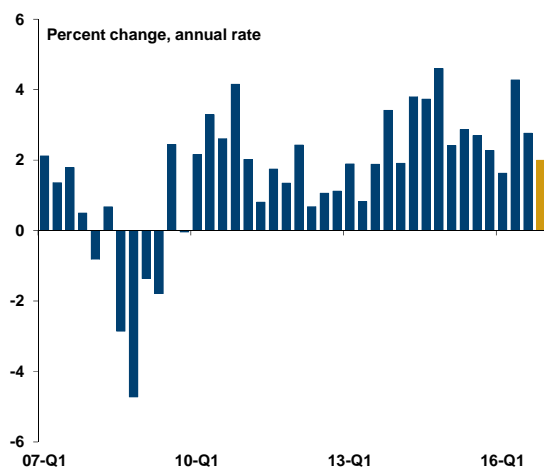
## Personal Income, Consumption, Price Indexes

Personal income rose sharply in October, with the jump of 0.6 percent exceeding the expected gain of 0.4 percent. Interest income accounted for much of the surprise, as the jump of 1.8 percent represented a marked deviation from gains of 0.2 percent in each of the prior six months. The Commerce Department did not offer an explanation, but perhaps the shift out of money market mutual funds because of regulatory changes played a role. Wages and rental income had a small influence, as both registered above-average increases (up 0.5 and 0.7 percent, respectively, 0.1 and 0.2 percentage point faster than the average in the prior 12 months).

Although income rose briskly in October, spending was restrained, with outlays growing 0.3 percent (versus the expectation of 0.5 percent). Consumers were active in spending on durable and nondurable goods (1.0 percent and 1.4 percent, respectively), but outlays for services declined 0.2 percent. Some of the drop reflected warmer-than-normal temperatures and limited demand for heating services, but spending on transportation services, recreation, and accommodations also fell. The light reading sets the stage for a possibly slow quarter for real consumer spending, but we look for some rebound in outlays for services, and thus still see total real spending in the neighborhood of 2.0 percent in Q4 (chart, left).

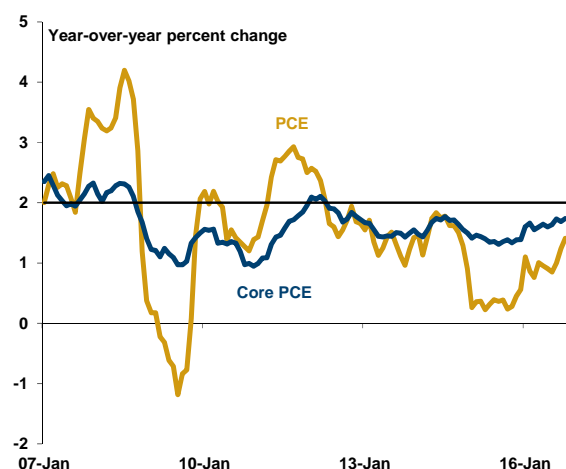
The price index for personal consumption expenditures (PCE) rose 0.2 percent, a tick below expectations, while the increase of 0.1 percent in the core component was in line with the consensus estimate. The advance in the headline measure pulled the year-over-year increase to 1.4 percent, up from 1.2 percent in the prior month and an average of 0.9 percent in the first half of the year (chart, right). The year-over-year change in the core price index totaled 1.7 percent, the same as in the prior two months but up a bit from increases of 1.5 to 1.6 percent in most other months this year. Although the results are below the Fed's target of 2.0 percent, the recent pattern is in line with the expectations of Fed officials of a gradual return to target. We do not see these figures as preventing the Fed from tightening in December.

### Growth of Real Consumer Spending\*



\* The reading for 2016-Q4 is a forecast based on data through October.  
 Source: Bureau of Economic Analysis; Daiwa Capital Markets America

### PCE Price Indexes\*



\* The horizontal line shows the inflation target of the Federal Reserve.  
 Source: Bureau of Economic Analysis; Federal Open Market Committee

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