

U.S. Data Review

- PCE price index: core price index edges higher in October
- Consumer spending: real spending in October suggests moderate growth in Q4

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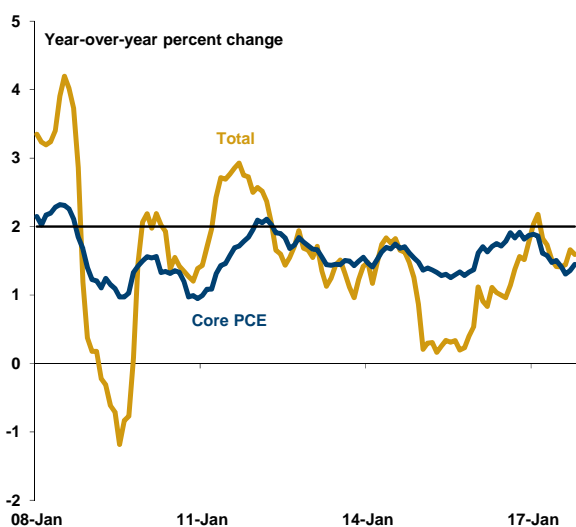
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PCE Price Indexes & Consumer Spending

The headline price index for personal consumption expenditures increased 0.1 percent. The core index accounted for all of the uptick in the headline index; energy prices fell 1.1 percent, but the decline offset only a portion of the spike of 10.2 percent in the prior two months. Food prices were little changed on balance, continuing a tame performance that began in the spring. Core prices rose 0.2 percent for the second consecutive month, with October showing some pickup if rounded with more precision (0.207 percent in October versus 0.151 percent in September). The core index also showed a pickup on a year-over-year basis (1.447 percent versus 1.358 percent in September; chart, left). The measure remained below the Fed's target of 2.0 percent inflation, but it supports the view that at least part of the recent slowdown in inflation was the result of transitory factors rather than a more fundamental shift.

Nominal consumer spending rose 0.3 percent, a moderate advance that translated to an increase of 0.1 percent after adjusting for inflation. Real growth in October was restrained by a decline of 0.1 percent in the durable area, which reflected an easing in vehicle sales after a surge in September to replace cars and trucks damaged by hurricanes -- statistical noise rather than fundamental softening. Outlays for services were flat in October; with several items contributing to the sluggishness, it is difficult to cite special factors as the cause. Households were active in the nondurable area, with real outlays growing 0.5 percent. Although October was underwhelming in terms of real spending growth, prospects for the fourth quarter as a whole seem favorable. The drop in vehicle sales is not likely to be repeated, and with favorable fundamentals, we suspect that outlays for services are likely to pick up. With even moderate increases in November and December, real expenditures are likely to advance 2.0 to 2.5 percent (annual rate) in Q4 (chart, right).

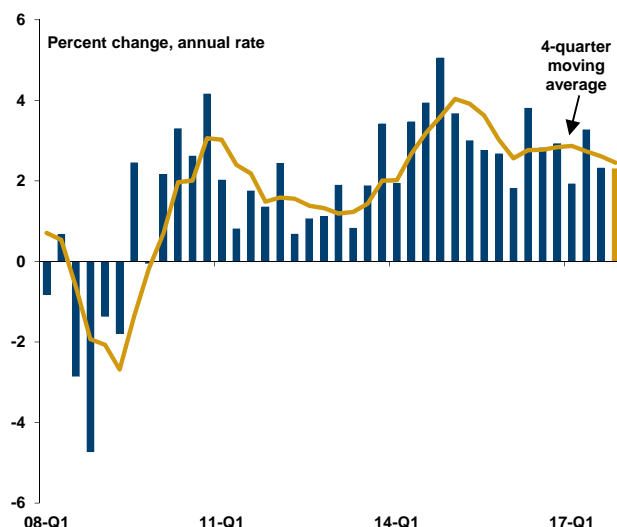
PCE Price Indexes*



* PCE = personal consumption expenditures. The horizontal line at two percent is the inflation target of the Federal Reserve.

Source: Bureau of Economic Analysis; Federal Reserve Board

Growth of Personal Consumption Expenditures*



* The reading for 2017-Q4 (gold bar) is a forecast based on data for October.

Source: Bureau of Economic Analysis; Daiwa Capital Markets America

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