U.S. Data Review

- Personal income, consumption, prices: subdued inflation in September
- Employment cost index: solid increase in wages, but little change in trend

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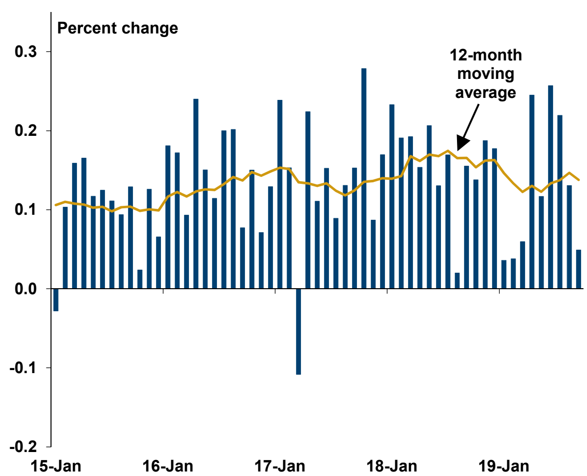
Personal Income, Consumption, Prices

Inflation as measured by the price index for personal consumption expenditures (PCE) remained contained in September, as both the headline index and the core component were unchanged. The steady reading on the headline index was expected, although the measure was a bit light if measured with more precision (-0.005 percent); the flat reading on the core component was less than the expected increase of 0.1 percent, but it almost rounded up to that expectation (0.049 percent).

The core component has been volatile this year, showing little change in the first three months of the year only to jump in the next four months. The index has settled to a degree in the past two months. The year-over-year change in the core index smooths much of this erratic movement and shows a steady inflation rate slightly less than 2.0 percent (1.7 percent in September, down from 1.8 percent in August and the high of 2.1 percent for the current cycle in July of last year (chart, left). The headline index has increased 1.3 percent in the past 12 months. Energy prices have restrained the change in the headline index (down 4.8 percent in the past year), but food prices also have been contained (up only 0.8 percent year-over-year).

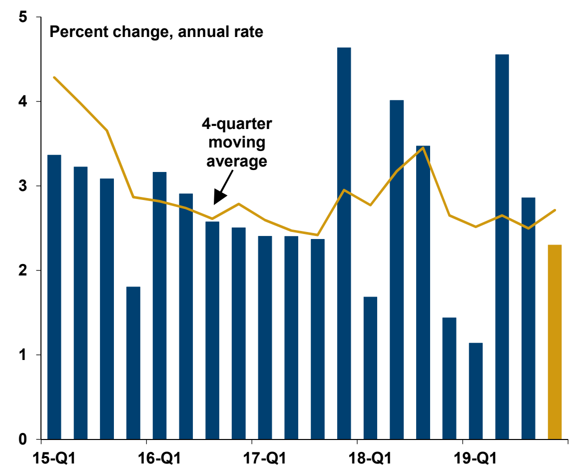
The results for income and consumption in the final month of the quarter are not especially interesting, as they merely represent a monthly breakdown of the quarterly figures published the day before with the GDP report. For what it's worth, income rose 0.3 percent in September, a touch slower than the average of 0.4 percent in the past year. The results were constrained by a flat reading on wages and salaries, reflecting lost income by auto workers because of the strike at General Motors. Farm income surged 26.5 percent after a striking advance in August (107.3 percent), but the increase reflected the payment of trade-related subsidies on an underlying weak trend. Interest income also was strong (1.1 percent), but the increase merely offset a portion of the declines in the prior two months.

Core PCE Price Index



PCE = personal consumption expenditures
Source: Bureau of Economic Analysis via Haver Analytics

Real Consumer Spending*



** The reading for 2019-Q4 (gold bar) is a forecast.*
Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

Consumer spending rose 0.2 percent in September, light relative to the average of 0.3 percent in the prior 12 months. However, with no inflation in September, the increase of 0.2 percent in real terms was in line with the recent average. The monthly breakdown on spending is useful in that it provides some insight into the degree of momentum at the start of a new quarter and represents a hint on possible growth. Prospects for Q4 seem reasonably good. Even if the next three months show no change, annual growth in Q4 would total 0.7 percent. If real outlays grow 0.2 percent in each of the next three months, annual growth would total 2.3 percent (chart, prior page, right).

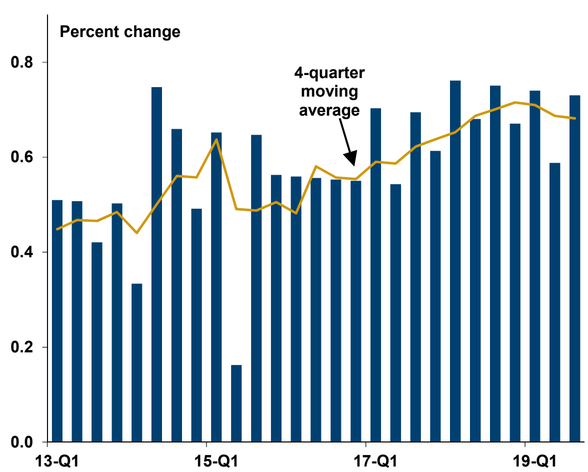
Employment Cost Index

The employment cost index, arguably the best available measure of labor compensation in the U.S., rose 0.7 percent in the third quarter, matching expectations. The increase, while one of the firmer readings in the past several years, followed a moderate gain in Q2 and left little change in underlying trend (year-over-year growth totaled 2.8 percent, the same as in Q2 and a touch below the recent peak of 2.9 percent in the fourth quarter of last year (chart, left).

The wage component of compensation posted a brisk advance (0.9 percent), but this jump, like that for the headline figure, did not alter the underlying trend, as year-over-year growth slowed marginally from the advance in Q2 (2.932 versus 2.959 percent) and was slightly slower than the recent peak of 3.00 percent in the fourth quarter of last year (chart, right).

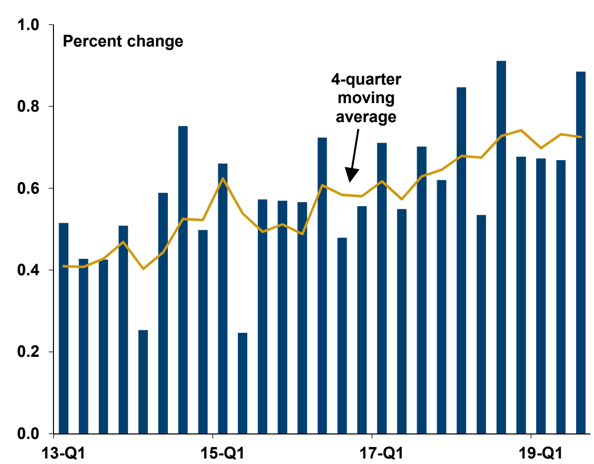
Costs associated with employee benefits rose 0.6 percent in the third quarter, a change in the middle of the recent range. Some other recent quarters have involved light-side advances, and thus the year-over-year change totaled 2.4 percent in Q3, down from 2.9 percent in the second quarter of last year and readings above three percent in some of the early years of the current expansion.

Employment Cost Index: Total Compensation



Source: Bureau of Labor Statistics via Haver Analytics

Employment Cost Index: Wages



Source: Bureau of Labor Statistics via Haver Analytics