

## October 2018 Income & Spending, Nov. UI Claims

### Spending Outpaced Income, Claims Crept Up

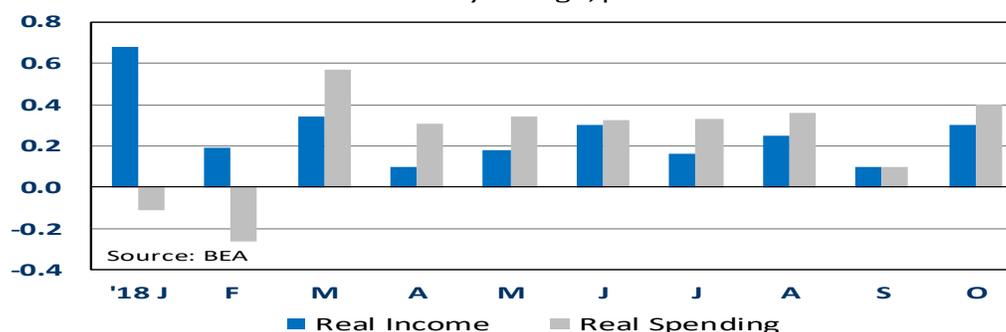
- U.S. Nominal Personal Income increased by 0.5 percent in October.
- After inflation and taxes, Real Disposable Income was up by 0.3 percent.
- Real Consumer Spending increased by 0.4 percent in October.
- The Personal Consumption Expenditure Price Index gained 0.2 percent in October.

Payroll expansion and wage hikes are supporting personal income, but in October it was small businesses that mattered. Nominal personal income increased by a solid 0.5 percent in October, with a moderate 0.3 percent gain in wages and salaries, and a strong 1.6 percent increase in proprietors' income. Inflation was moderate. The Personal Consumption Expenditure (PCE) Price Index is closely watched by the Federal Reserve. It increased by a moderate 0.2 percent in October, pushed by a strong 2.4 percent gain in energy prices. We will see a big drag from energy prices in the November data, consistent with the fall in WTI crude oil down to near \$50 per barrel. Excluding food and energy, the Core PCE Price Index was up by a sedate 0.1 percent in November, showing little core inflation for the month. Over the previous 12 months, the headline PCE Price Index was up by an even 2.0 percent, hitting the Fed's symmetrical target. Core PCE prices were up 1.8 percent in October, over the previous 12 months. Nominal personal taxes paid increased by a moderate 0.2 percent in October. After adjusting for inflation and taxes, real disposable income was up by a moderate 0.3 percent for the month. Real consumer spending gained 0.4 percent in October, following a sluggish 0.1 percent gain in September. It looks like the holiday shopping season is off to a good start, so we expect to see consumer spending growth again in November even after seasonal adjustment. With real consumer spending growing faster than real disposable income in October, something had to give, and that was the personal saving rate. Personal saving as a percentage of disposable personal income is still good at 6.2 percent in October, but it is eroding. The saving rate was 7.2 percent last March. All in, consumers are in good shape, but they are starting to warm up their credit cards and hold back a little less of their paychecks. For now, consumer credit quality and the saving rate are within normal ranges, but both metrics tend to deteriorate as the business cycle lengthens.

Tight labor market conditions are a key support to household finances. We see today in the weekly unemployment insurance claims report that labor market conditions are still very tight, however the trend through October and November has been toward increasing unemployment insurance claims from a very low level. For the week ending November 24, initial claims for unemployment insurance increased by 10,000 to hit 234,000. This is still a low level, but it is clearly up from a very low 202,000 for the week ending September 15. Continuing claims increased by 50,000 for the week ending November 17, to hit 1,710,000. The plant closures recently announced by General Motors, which will impact 15,000 workers in the U.S. and Canada, will not take effect until 2019.

**Market Reaction:** U.S. equity markets opened with losses. The yield on the 10-year Treasury bond is down to 3.02 percent. NYMEX crude is up to \$51.58/barrel. Natural gas futures are down to \$4.50/mmbtu.

**Income and Spending Both Up in October**  
Monthly Change, percent



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