



TD Economics

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Data Release: Incomes and spending underwhelm, but there are reasons to be optimistic for the holiday season

- Personal income increased by 0.2% in October, matching the previous months' gain but disappointing expectations for a 0.4% increase. September figures were not materially revised, but August numbers saw sizeable upward revisions. After accounting for taxes, disposable personal income also grew by 0.2% over the month.
- Personal spending gained 0.2% during October. This was also shy of expectations for a 0.3% gain, but was made better by positive revisions to September spending that is now reported as flat (prev. -0.2%).
- The personal consumption expenditure (PCE) price index rose by 0.1% last month – more than the flat print expected by markets. Core PCE (excluding food and energy) advanced by 0.2% in October – largely on par with expectations. Year-over-year PCE inflation remained unchanged at 1.4%, while the Core PCE inflation measure accelerated to 1.6% from 1.5% over the previous month.
- The savings rate remained unchanged at 5% as income and spending advanced at roughly the same pace.

Key Implications

- Following on yesterday's solid GDP print, this morning's report was slightly underwhelming with both income and consumption gains falling short of expectations. The disappointment was only partially counterbalanced by the upward revisions to both categories over previous months.
- Nevertheless, we remain optimistic about the consumer. Incomes should continue to improve alongside robust advances in payrolls with wage gains likely to manifest themselves as the labor market tightens. At the same time, low gasoline prices and interest rates should enable more discretionary spending as we head into the holiday shopping season.
- Price pressures remain subdued as inflation across services and food categories is offset by falling energy costs. After excluding the volatile energy and food prices, core inflation also remains subdued. But, the Fed should find some solace in the fact that it appears to be trending higher, albeit very gradually, with the year-over-year measure at its highest pace in nearly two years.

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