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TD Economics

Data Release: Strong income growth in October suggests robust consumer fundamentals

- Personal income rose 0.6% in October, beating the consensus expectation for a 0.4% gain. Removing inflation and taxes, real disposable income was up a robust 0.4% on the month.
- Personal consumption rose 0.3% in nominal terms, below the consensus forecast for a 0.5% rise. However, the disappointment was negated by a considerable upward revision to spending in September, now reported at 0.7% (from 0.5% previously).
- In real terms spending rose a slight 0.1%, but from an upwardly revised gain of 0.5% in September. By component, real spending on durables rose 1.0%, while spending on non-durable goods advanced 0.8%. These relatively strong gains were offset by a 0.3% decline in services spending.
- The personal saving rate jumped to 6.0%, from 5.7% in September.
- Inflation, as measured by the year-on-year change in the personal consumption deflator, accelerated to 1.4% in October from 1.2% in the previous month, but came in below the consensus print (1.5%). Core PCE inflation (ex food & energy) remained steady at 1.7% for a third straight month.

Key Implications

- Spending slowed in October, but consumer fundamentals remained robust. Real personal disposable income growth looks to rise by around 3.0% in the fourth quarter, giving continued support to spending growth.
- Much of the weakness in services spending is likely attributable to declining utilities spending due to an abnormally warm October, with this drag likely to reverse in the months ahead.
- With strong income gains over the past several months and a hefty saving buffer, the outlook for the holiday season is bright. Still, as has increasingly been the case over the last several years, a growing share of the season's shopping is likely to take place online rather than at the mall.
- Over the next year, we expect spending to slow closer to the 2.0% mark, as rising interest rates and the satiation of demand for durable goods cuts into overall spending growth.

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