October 31, 2016

TD Economics

Data Release: Consumer spending rebounds and inflation moves higher in September

- Personal income rose 0.3% in September, below the consensus expectation for 0.4%. Removing inflation and taxes, real disposable income was flat on the month.
- Personal consumption, on the other hand, jumped 0.5% in nominal terms, above the consensus forecast for 0.4%. In real terms spending was up 0.3%, rebounding from a downwardly revised decline of 0.2% in August.
- By component, real spending on durables led the way, rebounding 1.8% (following a 1.9% decline in August). Spending on non-durable goods fell 0.1% extending its declining streak to three straight months, while spending on services rose 0.1%.
- With spending growth outpacing income, the personal saving rate edged down to 5.7%, from 5.8% in August.
- Inflation, as measured by the year-on-year change in the personal consumption deflator, rose 1.2% (on par with consensus) up from 1.0% in August, while core PCE inflation (ex food & energy) remained steady at 1.7%.

Key Implications

- Given the disappointment on the quarterly rate of consumer spending growth in last week's GDP report, the acceleration on a monthly basis in September is comforting. The weakness in the quarter was due to downward revisions to growth in July and August.
- We anticipate spending growth in the fourth quarter of around 2.0%, consistent with this stage in the business cycle.
- Real income growth has slowed relative to its pace over the past year as the gains to spending power from lower energy prices have diminished. Fortunately, households have built up a comfortable savings buffer over the past year, which, alongside rising wages, will continue to support spending over the next one.

James Marple, Senior Economist
416-982-2557

@TD_Economics