

US Watch

Personal income and spending: An as expected report

Income growth remains supportive of consumption

Personal income rose by 0.2% m/m in October, which was in line with expectations but was also a deceleration from the upwardly revised 0.4% m/m increase in September. In real terms, personal income also rose by 0.2% m/m and is up 1.4% y/y. Similarly, real disposable income increased by 0.3% m/m and is up 3.9% y/y. Income growth continues to be supportive of consumption.

Spending cooled but remained positive

After a 0.7% surge in September, personal spending cooled to 0.2% m/m, matching consensus expectations. The increase in spending was driven entirely by a 0.4% m/m rise in services spending. Goods spending, meanwhile, fell by 0.2% though that was a function of prices as real goods spending rose by 0.1% m/m thanks to a 1.8% increase in energy goods. Overall, real spending rose by 0.2% m/m and core spending rose by 0.1% m/m, which was also driven by services (see Exhibit 5 for details). On a three-month annualized basis, real spending was up 1.9% in October, a meaningful deceleration from 5.1% in 3Q, but still relatively firm. Moreover, as we flagged in our latest BofA on USA report, holiday spending has been robust in November (see: [BofA on USA: Black Friday special](#)), which suggests the consumer is doing just fine in 4Q.

Sharp drop in the saving rate

Consumers continue to save at a relatively low rate, supporting consumption. The saving rate edged up to 3.8% from 3.7% previously. Looking at the details of the personal spending report, and comparing to saving behavior from 2019, excess saving declined by \$67bn in October, a touch more than the \$51bn per month from January through September. We estimate excess saving at about \$900bn now. (Exhibit 2). However, we caution that measures of excess savings are somewhat arbitrary because they are based on estimates of the pre-Covid trend. We think the flow of savings could remain below trend given gains in household balance sheets.

PCE inflation in line with our expectations

Headline and core PCE inflation came in at 0.0% (0.049% unrounded) and 0.2% (0.163%) m/m, respectively. These were bang in line with our expectations, but the headline print was a little softer than consensus. On a three-month annualized basis, core PCE inflation stands at 2.4%, not far off from the Fed's target (Exhibit 3). Also core services excluding housing services inflation cooled in October from 0.4% to 0.1% m/m (Exhibit 4)

Fed implications: supportive of a hold

The moderation in inflation in October is encouraging news for the Fed and supports their inclination to stay on hold in December. Inflation has made significant progress towards the Fed's target this year, though resilient activity data remain a concern to the future path for inflation that bears watching.

(See the following pages for Exhibits)

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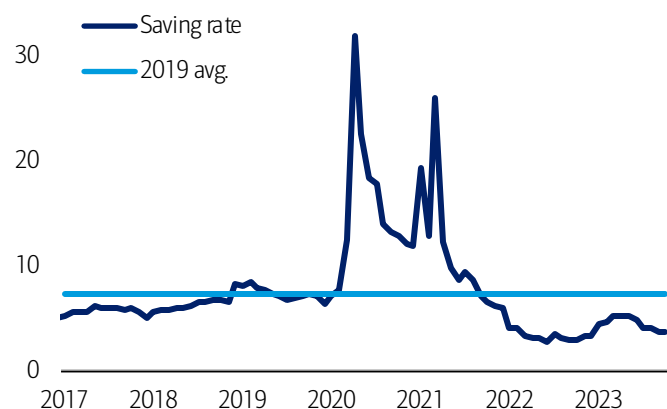
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Exhibit 1: Personal saving rate (% of disposable income)

The saving rate was 3.9% in October

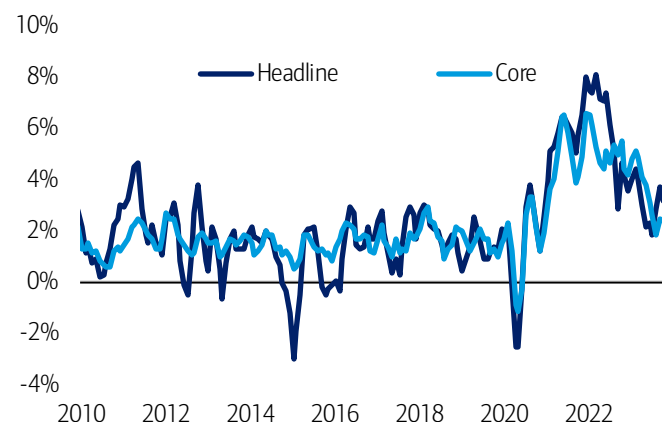


Source: Bureau of Economic Analysis (BEA)

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Exhibit 3: Headline and core PCE inflation (3m % ch. annualized)

Headline and core PCE inflation have made significant progress towards the Fed's target

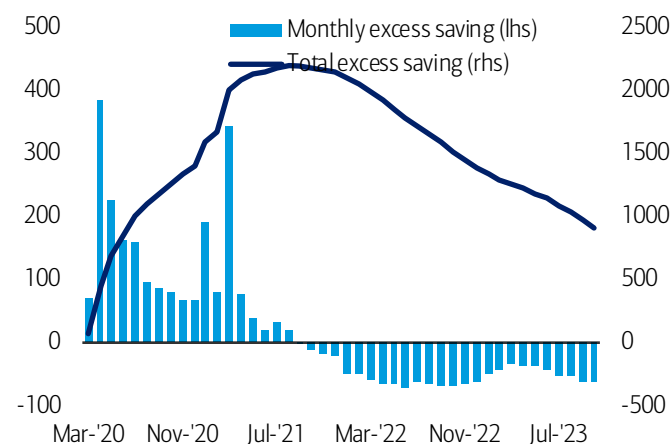


Source: BEA, Haver Analytics

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Exhibit 2: Excess saving (\$bn)

We estimate that excess savings were around \$900bn in October

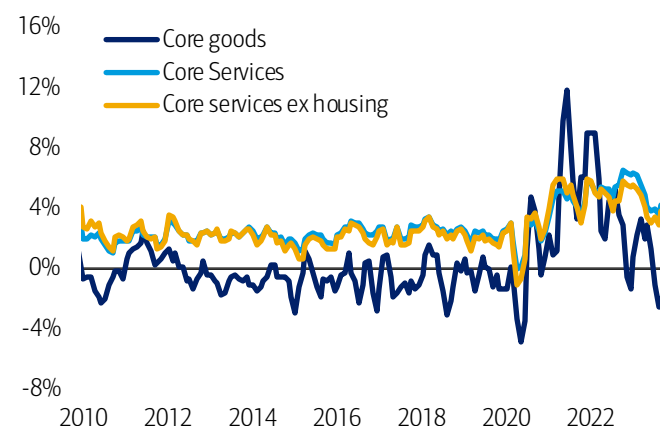


Source: BEA, Haver Analytics, BofA Global Research. Excess savings calculated by comparing actual savings to what savings would have been if the saving rate held at the average rate in 2019.

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Exhibit 4: Core goods, services, and services ex housing inflation (3m % ch. annualized)

Core goods inflation is deeply negative on a three-month basis



Source: BEA, Haver Analytics

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Exhibit 5: Real consumer spending heat map (% m/m)

Real spending registered another solid increase in October

Oct 23 wt	PCE category	Oct 23	Sep 23	Aug 23	Jul 23	Jun 23	May 23	Apr 23	Mar 23	Feb 23	Jan 23	Dec 22	Nov 22
100.0%	Headline PCE	0.2%	0.3%	0.0%	0.6%	0.3%	0.1%	0.1%	-0.2%	0.1%	1.0%	0.1%	-0.3%
88.1%	Core PCE	0.1%	0.5%	0.0%	0.5%	0.3%	0.2%	0.2%	-0.4%	0.0%	1.4%	0.1%	-0.4%
22.9%	Core goods	-0.2%	1.2%	-0.2%	1.3%	0.0%	0.4%	0.6%	-1.4%	-0.2%	3.1%	0.0%	-1.4%
11.7%	Durable goods	-0.3%	1.2%	-0.3%	1.3%	0.0%	0.6%	0.7%	-1.6%	-0.3%	5.0%	-0.2%	-2.3%
4.0%	Motor vehicles & parts	-0.8%	2.1%	-1.0%	1.2%	-1.6%	-1.0%	-0.2%	-2.0%	1.1%	9.3%	-1.6%	-2.4%
2.5%	Furnishings & durable HH equip.	-0.6%	0.5%	-0.8%	0.6%	1.1%	1.3%	0.8%	-1.9%	-2.1%	3.3%	-0.4%	-1.5%
3.7%	Recreational goods & vehicles	0.5%	0.6%	0.5%	2.2%	0.9%	2.0%	1.6%	-0.9%	0.0%	2.1%	2.1%	-2.8%
1.4%	Other durable goods	0.2%	1.1%	0.6%	0.7%	0.1%	0.7%	0.5%	-1.3%	-1.6%	3.3%	-1.3%	-1.9%
11.2%	Core nondurable goods	-0.1%	1.1%	-0.1%	1.2%	0.1%	0.1%	0.6%	-1.3%	-0.2%	1.1%	0.2%	-0.4%
2.8%	Clothing & footwear	-0.3%	0.8%	-0.1%	1.7%	-0.3%	0.1%	0.1%	-2.0%	-1.5%	2.0%	0.5%	-1.1%
8.5%	Other nondurable goods	0.0%	1.3%	-0.1%	1.1%	0.2%	0.1%	0.8%	-1.0%	0.3%	0.8%	0.1%	-0.2%
65.2%	Core services	0.2%	0.3%	0.1%	0.2%	0.3%	0.1%	0.1%	0.0%	0.0%	0.8%	0.2%	0.0%
15.4%	Housing	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
49.8%	Core services ex housing	0.2%	0.3%	0.1%	0.2%	0.4%	0.1%	0.1%	0.0%	0.0%	1.1%	0.2%	-0.1%
16.2%	Health care	0.2%	0.4%	0.3%	0.3%	0.1%	0.1%	-0.1%	0.5%	0.9%	1.0%	0.7%	0.6%
3.3%	Transportation services	0.1%	1.5%	0.8%	0.1%	-1.0%	1.2%	1.1%	-1.1%	0.1%	0.2%	1.1%	-2.9%
3.8%	Recreation services	-0.6%	-1.1%	0.2%	0.0%	1.6%	-1.5%	1.4%	-0.7%	-0.3%	1.5%	0.9%	0.5%
7.4%	Food services & accommodations	0.4%	1.1%	0.3%	0.7%	0.4%	0.6%	0.2%	-0.4%	-2.2%	3.2%	-1.0%	-0.5%
7.1%	Financial services & insurance	-0.2%	-1.0%	-0.5%	0.4%	1.7%	-0.1%	0.5%	0.0%	0.3%	0.0%	0.0%	0.7%
0.7%	Water supply & sanitation	0.0%	0.0%	-0.1%	-0.2%	-0.1%	-0.2%	-0.3%	0.2%	0.4%	0.5%	0.0%	-0.1%
8.4%	Other services	0.9%	1.2%	-0.3%	0.0%	0.2%	0.2%	-1.2%	0.2%	0.5%	1.2%	0.2%	-0.1%
2.9%	Final consumption exp. of NPISH	0.6%	-0.7%	0.3%	-0.4%	-0.1%	0.6%	0.4%	-0.8%	-1.5%	-0.8%	-0.5%	-1.9%
11.9%	Non-core PCE	0.6%	-0.8%	-0.1%	1.1%	0.2%	-0.3%	-0.4%	1.2%	0.7%	-1.8%	-0.3%	-0.1%
7.7%	Food	0.0%	0.1%	-0.2%	0.4%	0.1%	0.2%	0.4%	-0.6%	0.1%	-0.1%	-0.7%	-0.3%
4.2%	Energy goods & services	1.8%	-2.4%	0.0%	2.5%	0.4%	-1.4%	-1.8%	4.5%	1.9%	-4.9%	0.3%	0.2%

Source: BEA

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Exhibit 6: Personal income and spending

Summary table

	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22	Nov-22	Oct-22
Personal income													
%m/m	0.2%	0.4%	0.5%	0.3%	0.2%	0.3%	0.2%	0.5%	0.5%	1.0%	0.2%	0.1%	0.5%
%y/y	4.5%	4.8%	4.8%	4.9%	5.4%	5.6%	5.7%	5.8%	5.7%	5.8%	4.5%	4.6%	4.9%
Compensation of employees													
%m/m	0.2%	0.5%	0.5%	0.4%	0.5%	0.4%	0.4%	0.5%	0.6%	1.5%	0.1%	-0.1%	-0.2%
%y/y	5.6%	5.2%	5.4%	5.7%	6.6%	6.5%	6.3%	6.1%	5.9%	5.9%	4.3%	4.9%	5.8%
Wages and salaries													
%m/m	0.1%	0.5%	0.5%	0.4%	0.5%	0.4%	0.4%	0.6%	0.6%	1.6%	0.0%	-0.1%	-0.3%
%y/y	5.7%	5.3%	5.6%	5.8%	6.9%	6.8%	6.6%	6.4%	6.2%	6.1%	4.4%	5.1%	6.2%
Disposable personal income													
%m/m	0.3%	0.4%	0.4%	0.1%	0.1%	0.4%	0.5%	0.6%	0.6%	2.6%	0.4%	0.3%	0.7%
%y/y	7.0%	7.4%	7.5%	7.8%	8.7%	9.1%	9.2%	9.0%	8.9%	8.9%	4.5%	4.2%	4.3%
Personal consumption expenditure													
%m/m	0.2%	0.7%	0.4%	0.7%	0.4%	0.2%	0.4%	-0.1%	0.4%	1.6%	0.3%	-0.1%	0.6%
%y/y	5.3%	5.7%	5.6%	6.1%	5.3%	5.9%	6.1%	6.3%	7.6%	7.9%	6.8%	6.9%	7.8%
Goods													
%m/m	-0.2%	0.7%	0.7%	0.6%	0.1%	0.1%	0.8%	-1.2%	0.3%	2.6%	-0.6%	-1.3%	0.7%
%y/y	2.4%	3.3%	3.0%	2.7%	1.4%	2.5%	2.6%	2.3%	5.3%	5.4%	4.2%	4.9%	7.3%
Durable goods													
%m/m	-0.5%	1.1%	-0.6%	0.6%	-0.4%	0.9%	0.8%	-1.6%	-0.5%	5.2%	-0.4%	-2.8%	0.7%
%y/y	1.5%	2.8%	2.2%	3.8%	3.7%	4.4%	1.9%	2.4%	4.4%	3.7%	1.7%	1.6%	5.2%
Non durable goods													
%m/m	0.0%	0.5%	1.4%	0.6%	0.4%	-0.3%	0.9%	-1.0%	0.7%	1.1%	-0.8%	-0.5%	0.7%
%y/y	2.8%	3.6%	3.5%	2.1%	0.1%	1.5%	3.0%	2.3%	5.9%	6.3%	5.6%	6.9%	8.5%
Services													
%m/m	0.4%	0.7%	0.2%	0.8%	0.6%	0.3%	0.3%	0.5%	0.4%	1.1%	0.8%	0.5%	0.6%
%y/y	6.8%	7.0%	7.0%	7.8%	7.4%	7.6%	7.9%	8.4%	8.8%	9.3%	8.2%	7.9%	8.1%
Saving rate (%)													
	3.8	3.7	4.2	4.2	4.8	5.3	5.2	5.2	4.7	4.4	3.4	3.3	3.0
PCE inflation													
%m/m	0.0%	0.4%	0.4%	0.2%	0.2%	0.1%	0.3%	0.1%	0.3%	0.6%	0.2%	0.2%	0.5%
%y/y	3.0%	3.4%	3.4%	3.4%	3.2%	4.0%	4.4%	4.4%	5.2%	5.5%	5.4%	5.9%	6.3%
Core PCE inflation													
%m/m	0.2%	0.3%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.4%	0.5%	0.4%	0.3%	0.3%
%y/y	3.5%	3.7%	3.8%	4.3%	4.3%	4.7%	4.8%	4.8%	4.8%	4.9%	4.9%	5.1%	5.3%
Billions of Chained 2012 Dollars													
Personal income													
%m/m	0.2%	0.0%	0.1%	0.1%	0.0%	0.2%	-0.1%	0.4%	0.2%	0.4%	0.0%	-0.1%	0.1%
%y/y	1.4%	1.3%	1.4%	1.5%	2.2%	1.6%	1.2%	1.3%	0.5%	0.3%	-0.9%	-1.3%	-1.4%
Personal income ex transfer payments													
%m/m	0.3%	0.2%	0.2%	0.3%	0.1%	0.2%	0.0%	0.4%	0.2%	0.6%	0.0%	-0.1%	-0.3%
%y/y	2.3%	1.8%	1.8%	1.9%	2.6%	2.1%	1.8%	1.8%	1.0%	0.6%	-0.6%	-1.0%	-0.9%
Disposable personal income per capita													
%m/m	0.2%	0.0%	0.0%	-0.1%	-0.1%	0.3%	0.2%	0.4%	0.3%	2.0%	0.2%	0.0%	0.2%
%y/y	3.3%	3.3%	3.4%	3.7%	4.8%	4.4%	4.0%	3.9%	3.0%	2.7%	-1.4%	-2.1%	-2.4%
Personal consumption expenditures													
%m/m	0.2%	0.3%	0.0%	0.6%	0.3%	0.1%	0.1%	-0.2%	0.1%	1.0%	0.1%	-0.3%	0.2%
%y/y	2.2%	2.2%	2.2%	2.6%	2.1%	1.8%	1.6%	1.7%	2.3%	2.3%	1.3%	0.9%	1.4%
Goods													
%m/m	0.1%	0.5%	-0.1%	0.9%	0.2%	0.2%	0.5%	-1.0%	0.1%	2.0%	-0.1%	-1.1%	0.3%
%y/y	2.1%	2.4%	2.3%	2.9%	1.8%	1.3%	0.4%	0.4%	1.7%	0.9%	-0.5%	-1.2%	0.0%
Durable goods													
%m/m	-0.3%	1.2%	-0.3%	1.3%	0.0%	0.6%	0.7%	-1.6%	-0.3%	5.0%	-0.2%	-2.3%	1.1%
%y/y	3.7%	5.2%	4.1%	4.8%	4.3%	4.0%	1.4%	2.0%	4.1%	3.1%	0.2%	-1.1%	1.3%
Non durable goods													
%m/m	0.3%	0.2%	0.0%	0.7%	0.3%	0.0%	0.5%	-0.7%	0.3%	0.4%	-0.1%	-0.5%	-0.1%
%y/y	1.3%	0.8%	1.4%	1.9%	0.4%	-0.1%	-0.1%	-0.5%	0.4%	-0.4%	-0.9%	-1.2%	-0.7%
Services													
%m/m	0.2%	0.3%	0.1%	0.4%	0.3%	0.1%	-0.1%	0.2%	0.0%	0.5%	0.2%	0.0%	0.1%
%y/y	2.3%	2.2%	2.1%	2.5%	2.2%	2.1%	2.2%	2.5%	2.6%	3.1%	2.2%	2.0%	2.1%

Source: BEA, Haver Analytics, BofA Global Research

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