U.S. Flash

Personal Income & Spending Rise, Ending 3Q on a High Note

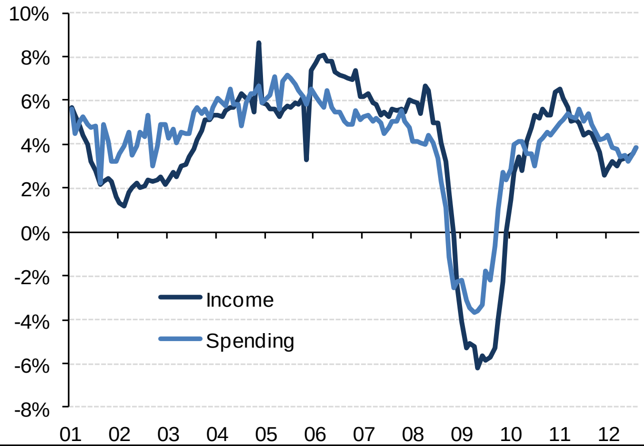
- **Personal income increased in September with a 0.3% boost from wages and salaries**
- **Spending jumped 0.8% for the month, reflecting a 0.4% increase in real terms**

Personal income and spending accelerated in September on better economic performance and the consumer's continued willingness to purchases big-ticket items. On par with the consensus, income rose 0.4% for the month, its strongest pace in six months, following a modest 0.1% rise in August. For the first time all quarter, wage and salary disbursements outpaced supplemental income growth. The rise in income and a third consecutive decline for personal savings helped boost consumption, which jumped 0.8% to mark the highest growth rate in nearly three years. Durable goods spending drove the headline figure, jumping 1.5% mostly on account of an increase in auto sales. This seems to be a mixed bag however, as the rise in spending came from larger ticket items like vehicles, but also the increased cost of using those vehicles, mainly gasoline. As oil prices fluctuated in August and September, the cost to fuel these vehicles also climbed, taking a larger portion of the consumer's budget for the month.

After last week's stronger-than-expected advance estimate for 3Q12 GDP growth, it was clear that September's spending figure would be significant. Despite the inflation influence for the month, real personal consumption expenditures (PCE) accelerated to 0.4% from 0.1% in August. Throughout the third quarter, monthly spending averaged just under 0.3% in real terms, the strongest pace in more than a year.

Overall, spending was larger than expected which is much needed good news as the fiscal cliff gets closer and consumers await news on the election and Europe as well. For the fourth quarter, we expect that only some of this momentum from the consumer will carry over. While end-of-the-year outlays are always a bit stronger due to holiday shopping, it is unlikely that this significant rate of spending can persist if personal income and attitudes do not hold up. Furthermore, we do not expect that the personal savings rate will continue to decline significantly as it did throughout the entire third quarter. Although consumer credit is again on the rise, household deleveraging will continue and debt will remain a significant burden on consumers.

Chart 1
Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

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