

Time EST	Indicator	For		Actual*	Estimate**	Consensus***	Previous Period****
08:30 AM	Personal Income	Sep	↓	0.2%	0.4%	0.4%	0.4% R↑
08:30 AM	Personal Spending	Sep	-	0.4%	0.4%	0.4%	0.5% R↑
08:30 AM	Real Personal Spending	Sep	-	0.3%	NA	0.3%	0.2%
08:30 AM	PCE Deflator MoM	Sep	-	0.1%	0.1%	0.1%	0.1%
08:30 AM	PCE Deflator YoY	Sep	-	2.0%	NA	2.0%	2.2%
08:30 AM	PCE Core MoM	Sep	↑	0.2%	0.1%	0.1%	0.0%
08:30 AM	PCE Core YoY	Sep	-	2.0%	NA	2.0%	2.0%
10:30 AM	Dallas Fed Manufacturing Activity	Oct	↑	29.4	25.0	28.1	28.1

* ↑ indicates stronger than Consensus estimated, ↓ indicates weaker than Consensus estimated, - indicates in-line with Consensus Estimated

** Estimate from Bank of the West Economics

*** Consensus from Bloomberg

**** ↑ means prior reading revised up, ↓ means prior reading revised down

September Personal Income Growth Disappoints but Spending In-Line with Expectations

Nominal personal spending increased 0.4% month-on-month in September, in line with our estimate but down slightly from the upwardly revised gain of 0.5% in August. The robust gain in spending occurred despite nominal personal income growth slowing to 0.2% in September from 0.4% in the prior month. Spending growth has outpaced income growth in six of the past seven months. On a year-ago basis, income is up 4.4% in September while spending has risen 5.0%. Households are saving less to support their spending with the savings rate declining to 6.2% of disposable income last month. This is the seventh consecutive decline, bringing the savings rate to the lowest level since December 2017.

The third quarter 4.0% real consumer spending growth doesn't appear sustainable in the fourth quarter as declining stock prices and declining personal savings rates suggest a more moderate pace of consumer spending growth. Our forecast is real consumer spending growth will slow to around 2.6% in the current quarter.

Headline PCE inflation remained stable in September, but the PCE core deflator inflation accelerated to 0.2% month-on-month, up from a flat reading in August. Expectations were for a gain of 0.1%. The PCE core deflator is up 2.0% year-over-year in September for the fifth successive month. This report does not change our view for the Fed to raise interest rates by a quarter percentage point in December and twice more in quarter-point increments in 2019 before pausing.

Manufacturing activity continued to expand in Texas with the Dallas Fed Manufacturing Activity Index increasing to 29.4 in October from 28.1 in September. The consensus was looking for a reading of 28.1. The production index was positive but declined another six points to 17.6, suggesting that output growth continued to slow. Price pressures increased further in October with the raw materials price index rising 10 points to 54.4, a seven year high. Moreover, compensation costs remain elevated with the wages and benefits index little changed at 32.9. Finally, expectations regarding future business conditions remain solid, with the future general business activity index at 35.6, above the six-month average of 35.1.



U.S. stocks are higher today, trying to recover from last week's sell off. The Dow and the S&P 500 are up 0.59% and 1.22% respectively, while the NASDAQ is up 0.43%. Gains in the S&P 500 today are led by financial, real estate and consumer staples stocks.

Treasury yields are rising across the curve today. The 10-Year Treasury yield is currently at 3.100 – up 2.4 basis points from Friday's close. The 2-10 Treasury spread is 27.1 basis points – unchanged from Friday's close. The futures market probability of another Fed funds rate hike in December is 73.2% this morning, up from 69.3% on Friday.

The U.S. dollar is gaining ground against the major currencies today. The Bloomberg dollar spot index is up 0.46% from Friday's close and is up 1.61% over the last month. The U.S. dollar is advancing the most today against the Mexican peso, Japanese yen and euro.