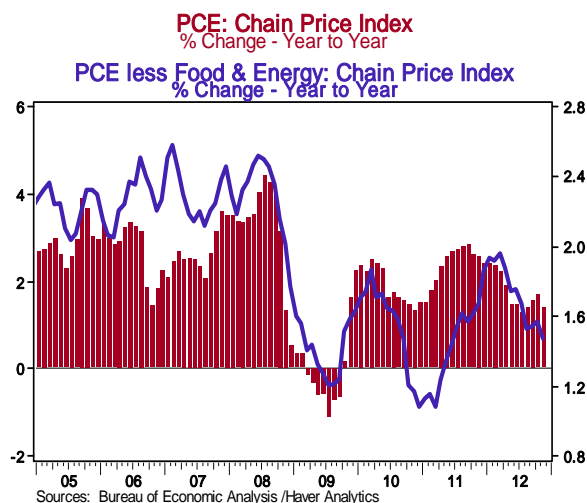
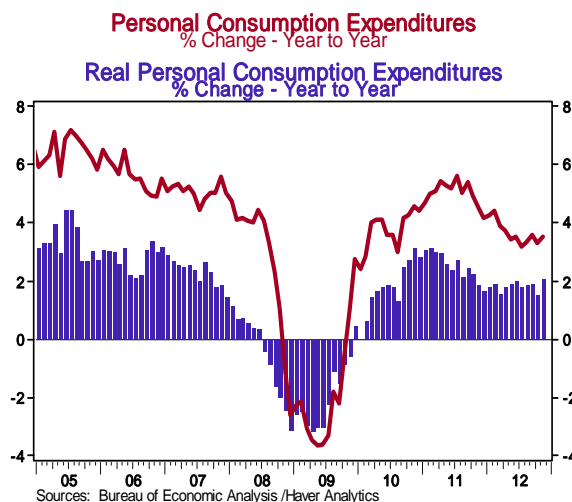


November Personal Income and Consumption

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- Personal income was up 0.6% in November, easily beating the consensus expected gain of 0.3%. Personal consumption was up 0.4%, matching consensus expectations. In the past year, personal income is up 4.1% while spending is up 3.5%.
- Disposable personal income (income after taxes) was up 0.6% in November and 4.0% from a year ago. Gains in private wages & salaries as well as interest income led the way in November.
- The overall PCE deflator (consumer inflation) was down 0.2% in November but up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in November and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption increased 0.6% in November and is up 2.1% from a year ago.

Implications: After getting clobbered by Sandy in October, income and consumer spending rebounded sharply in November. Incomes increased 0.6% for November (+0.7% including upward revisions for prior months). The gains in the months ahead are not likely to be quite so strong but should continue. In the past year, incomes are up 4.1% and private-sector wages & salaries are up 4.3%. In other words, income gains are not artificially supported by government transfer payments. Led by durable goods like autos, consumer spending was up 0.4% in November (+0.5% including revisions to prior months) and is up 3.5% in the past year. “Real” (inflation-adjusted) spending was up 0.6% in November (+0.8% including revisions to prior months) and up 2.1% versus a year ago. One of the reasons real spending was so strong was that, consistent with the drop in the CPI for November, overall personal consumption inflation was negative as well, with prices falling 0.2%. This measure of inflation, known as the PCE deflator, is the Federal Reserve’s favorite measure of overall prices and is up only 1.4% versus a year ago, which is less than the Fed’s target of 2%. However, given the loose stance of monetary policy, look for inflation to move above the Fed’s target in 2013. Before today’s economic reports, we had been estimating a real GDP growth rate of only 0.5% for the fourth quarter; today’s data now have us tracking 1%. If we get a last minute political deal on the “fiscal cliff,” we expect real GDP growth in the 2.5% to 3% range next year. That includes boosts from farm inventory replenishment after this year’s drought, as well as Sandy-related rebuilding on the East Coast. However, if we fall over the cliff for a prolonged period and there is no deal at all, growth in 2013 is likely to be roughly half that pace with more weakness in the first half of the year.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Nov-12	Oct-12	Sep-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.6%	0.1%	0.4%	4.5%	3.2%	4.1%
Disposable (After-Tax) Income	0.6%	0.1%	0.4%	4.4%	3.1%	4.0%
Personal Consumption Expenditures (PCE)	0.4%	-0.1%	0.8%	4.4%	3.6%	3.5%
Durables	2.7%	-1.1%	2.1%	15.2%	10.1%	7.2%
Nondurable Goods	-1.0%	-0.1%	1.5%	1.7%	3.8%	2.6%
Services	0.5%	0.1%	0.3%	3.7%	2.5%	3.3%
PCE Prices	-0.2%	0.1%	0.3%	0.9%	1.5%	1.4%
"Core" PCE Prices (Ex Food and Energy)	0.0%	0.1%	0.0%	0.9%	1.0%	1.5%
Real PCE	0.6%	-0.2%	0.5%	3.5%	2.1%	2.1%

Source: Bureau of Economic Analysis