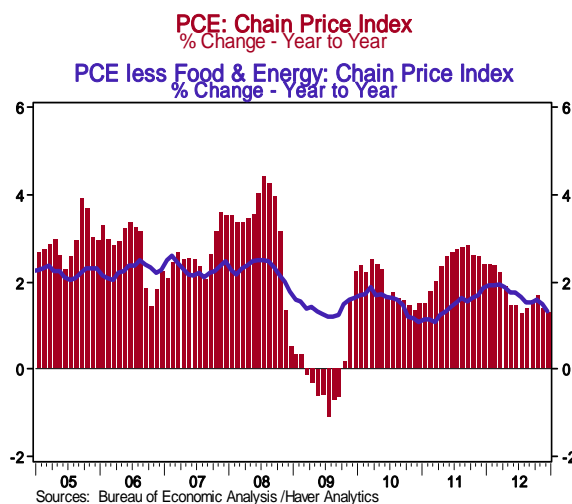
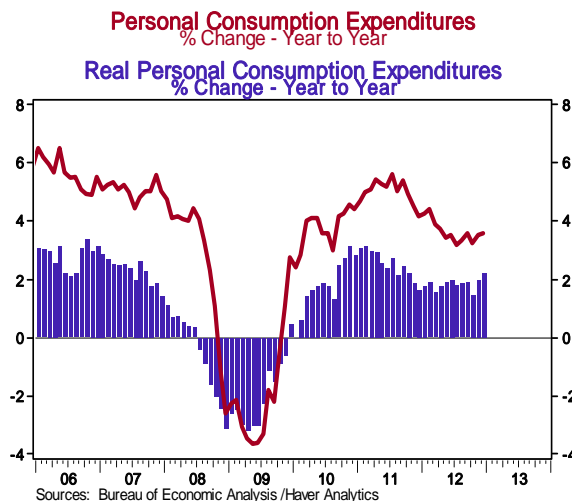


## December Personal Income and Consumption

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- Personal income was up 2.6% in December, easily beating the consensus expected gain of 0.8%. Personal consumption was up 0.2%, coming in below the consensus expected 0.3%. In the past year, personal income is up 6.9% while spending is up 3.6%.
- Disposable personal income (income after taxes) was up 2.7% in December and up 7.0% from a year ago. The gain in December was mostly due to dividends.
- The overall PCE deflator (consumer inflation) was unchanged in December but up 1.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, was also unchanged in December but is up 1.4% in the past year.
- After adjusting for inflation, “real” consumption increased 0.2% in December and is up 2.2% from a year ago.

**Implications:** Personal income boomed 2.6% in December (3% including upward revisions to November), the largest monthly gain since December 2004. Like in 2004, the gain was due to dividends. Back then, Microsoft paid a large special dividend; this time around, many companies shifted dividends into December so shareholders could avoid higher taxes in 2013. Given the tax hike on ordinary income, we would have expected a spike in private-sector wages & salaries as well. Back in late 1992, private wages & salaries jumped 7.2% in December in anticipation of higher taxes under President Clinton. This time around, private wages & salaries were up 0.8%, a strong gain, but nowhere near 1992. Regardless, due to the spike in overall income, expect a large decline next month to bring us back toward a more plow-horse-like trend. Led by durable goods like autos, consumer spending was up 0.2% in December and is up 3.6% in the past year. “Real” (inflation-adjusted) spending was also up 0.2% in December and up 2.2% versus a year ago. Personal consumption prices were flat in December. This measure of inflation, known as the PCE deflator, is the Federal Reserve’s favorite for overall prices and is up only 1.3% versus a year ago, 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. In other news this morning, new claims for jobless benefits rose 38,000 last week to 368,000. Continuing claims for regular state benefits increased 22,000 to 3.20 million. These figures are consistent with our forecast of a nonfarm payroll gain of 160,000 for January. The Chicago PMI, which measures manufacturing sentiment in that region, increased to 55.6 in January from 50.0 in December. Despite yesterday’s negative report on Q4 real GDP growth, we are nowhere close to recession.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-12	Nov-12	Oct-12	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>2.6%</b>	1.0%	0.1%	15.6%	8.9%	6.9%
<b>Disposable (After-Tax) Income</b>	<b>2.7%</b>	1.0%	0.1%	16.4%	9.2%	7.0%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.2%</b>	0.4%	-0.1%	2.0%	4.0%	3.6%
<b>Durables</b>	<b>1.0%</b>	2.7%	-1.2%	10.5%	12.2%	7.8%
<b>Nondurable Goods</b>	<b>-0.2%</b>	-1.1%	-0.2%	-5.6%	4.2%	2.7%
<b>Services</b>	<b>0.2%</b>	0.5%	0.1%	3.3%	2.6%	3.2%
<b>PCE Prices</b>	<b>0.0%</b>	-0.2%	0.1%	-0.5%	1.2%	1.3%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.0%</b>	0.0%	0.1%	0.8%	0.7%	1.4%
<b>Real PCE</b>	<b>0.2%</b>	0.6%	-0.2%	2.5%	2.7%	2.2%

Source: Bureau of Economic Analysis