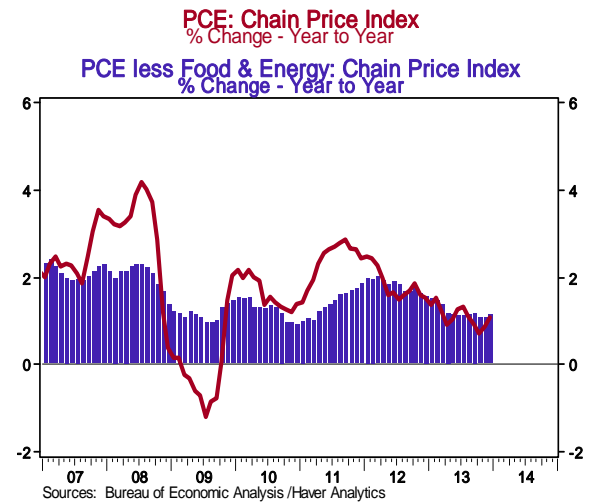
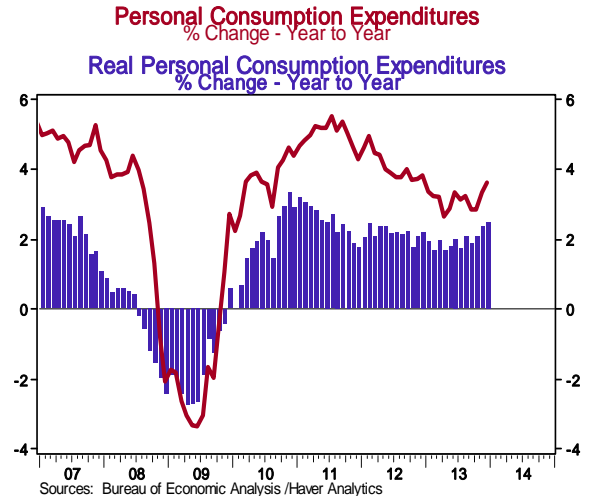


December Personal Income and Consumption

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- Personal income was unchanged in December, coming in below the consensus expected gain of 0.2%. Personal consumption rose 0.4%, beating the consensus expected gain of 0.2%. Including revisions to prior months, personal consumption was up 0.2%. In the past 12 months, personal income is down 0.8% while spending is up 3.6%.
- Disposable personal income (income after taxes) was unchanged in December and is down 1.7% from a year ago. Income was unchanged in December due to a decline in farm income offsetting small gains in all other categories.
- The overall PCE deflator (consumer prices) was up 0.2% in December and is up 1.1% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in December and is up 1.2% in the past year.
- After adjusting for inflation, “real” consumption was up 0.2% in December (unchanged including revisions to prior months) and is up 2.5% from a year ago.

Implications: Another strong month of spending for the consumer in December. Consumer spending rose 0.4%, beating consensus expectations. In the past six months, consumer spending is up at a 4.1% annual rate; in the past three months, it’s up at a 4.6% rate. We need to keep this in mind the next time politicians and pundits try to scare the public about lower government spending. Personal income on the other hand was not so rosy. Personal income was unchanged in December, which was less than the consensus expected. But farm income, which can be volatile, fell again in December, holding the overall number unchanged. Income is now down 0.8% versus a year ago. But income gains were very strong late last year, as companies pushed income and dividends into the late months of 2012 in order to avoid higher tax rates in 2013. This is making year-ago comparisons misleading. From October 2012 (before we saw artificially high income numbers) to December 2013, personal income was up 3.6% (vs -0.8% from December) and private-sector wages & salaries were up 4.5% (vs +0.7% from December). Expect both income and spending to keep growing in 2014. Job growth will continue and, as the jobless rate gradually declines, employers will offer higher wages. Meanwhile, consumers’ financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve’s favorite measure of inflation, the personal consumption price index, was up 0.2% in December. Core consumption prices were up 0.1%. Overall consumption prices and core prices, which exclude food and energy, are up 1.1% and 1.2% respectively in the past year, both below the Fed’s 2% target. While we expect inflation to move higher, the Fed will not be in a hurry to raise the federal funds rate. In other news today, the Chicago PMI, which measures factory sentiment in that region, declined to 59.6 in January from 60.8 in December. As a result, our forecast for the national ISM manufacturing report is 56.2 for January.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-13	Nov-13	Oct-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.0%	0.2%	-0.1%	0.4%	2.4%	-0.8%
Disposable (After-Tax) Income	0.0%	0.1%	-0.2%	-0.6%	2.6%	-1.7%
Personal Consumption Expenditures (PCE)	0.4%	0.6%	0.1%	4.6%	4.1%	3.6%
Durables	-1.8%	1.8%	0.6%	2.2%	1.4%	2.6%
Nondurable Goods	1.5%	0.2%	-0.6%	4.7%	5.7%	4.0%
Services	0.4%	0.6%	0.3%	5.0%	4.0%	3.6%
PCE Prices	0.2%	0.0%	0.0%	0.8%	1.0%	1.1%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.1%	0.1%	1.1%	1.1%	1.2%
Real PCE	0.2%	0.6%	0.1%	3.8%	3.0%	2.5%

Source: Bureau of Economic Analysis