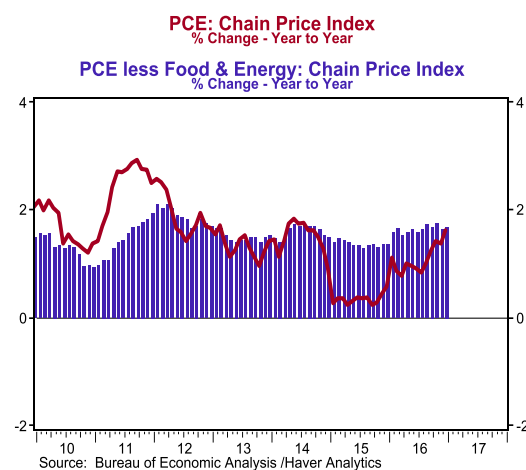
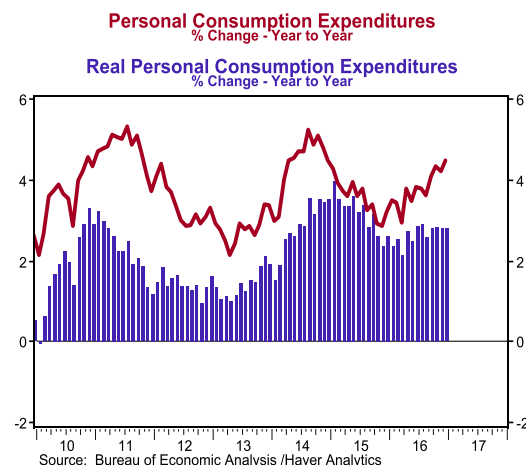


December Personal Income and Consumption

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- Personal income increased 0.3% in December, coming in below the consensus expected 0.4%. Personal consumption rose 0.5% in December, matching consensus expectations. Personal income is up 3.5% in the past year, while spending is up 4.5%.
- Disposable personal income (income after taxes) increased 0.3% in December and is up 3.7% from a year ago. The gain in December was led by private-sector wages & salaries.
- The overall PCE deflator (consumer inflation) rose 0.2% in December and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, increased 0.1% in December and is up 1.7% in the past year.
- After adjusting for inflation, “real” consumption increased 0.3% in December and is up 2.8% from a year ago.

Implications: Last year ended on a solid note, with healthy gains in Christmas-time consumer spending and respectable income gains as well. Income increased 0.3% in December with private-sector wages & salaries bouncing back 0.4% after declining in the previous month. Incomes are up 3.5% in the past year and we expect further gains in the year ahead as the labor market continues to tighten. In turn, consumer spending will continue to grow as well. Spending rose 0.5% in December and is now up 4.5% in the past year. Today’s report also shows inflation continuing to trudge higher. The PCE deflator, the Fed’s favorite measure of inflation, rose 0.2% in December and is up 1.6% from a year ago. It still has not crossed 2%, but this is a sharp jump from just 0.6% inflation in the year ending in December 2015. In the past three months PCE prices are up at a 1.9% annual rate, right around the Fed’s long-term target of 2%. Meanwhile, the “core” PCE deflator, which excludes food and energy, is up 1.7% from a year ago. We expect continued acceleration in year-ago comparison measures of inflation over the next few months, with a lot of the gain coming from energy prices. Together with continued employment gains, these figures support the case for at least three rate hikes by the Fed in 2017. The one consistent dark cloud in the income reports has been government redistribution. Overall government transfers to persons are up 3.3% in the past year. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they’re around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens work incentives. That’s why, for the time being, we still have a Plow Horse economy, not a Race Horse economy.



| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Dec-16 | Nov-16 | Oct-16 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.3% | 0.1% | 0.5% | 3.4% | 3.8% | 3.5% |
| Disposable (After-Tax) Income | 0.3% | 0.1% | 0.5% | 3.4% | 3.6% | 3.7% |
| Personal Consumption Expenditures (PCE) | 0.5% | 0.2% | 0.4% | 4.3% | 4.5% | 4.5% |
| Durables | 1.4% | -0.8% | 1.1% | 6.9% | 8.7% | 5.4% |
| Nondurable Goods | 0.2% | 0.1% | 1.0% | 5.4% | 3.1% | 3.3% |
| Services | 0.4% | 0.4% | 0.0% | 3.6% | 4.2% | 4.7% |
| PCE Prices | 0.2% | 0.1% | 0.3% | 1.9% | 1.8% | 1.6% |
| "Core" PCE Prices (Ex Food and Energy) | 0.1% | 0.0% | 0.1% | 1.0% | 1.4% | 1.7% |
| Real PCE | 0.3% | 0.2% | 0.1% | 2.4% | 2.6% | 2.8% |

Source: Bureau of Economic Analysis