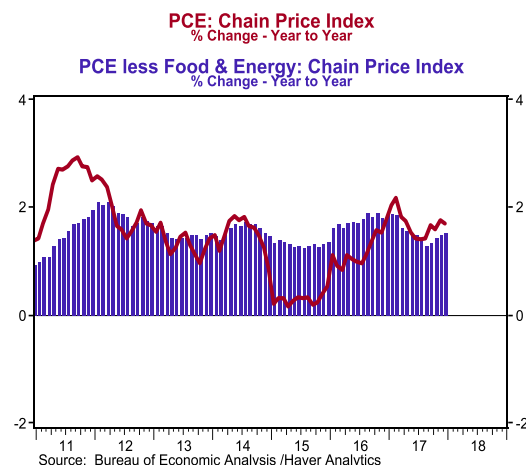
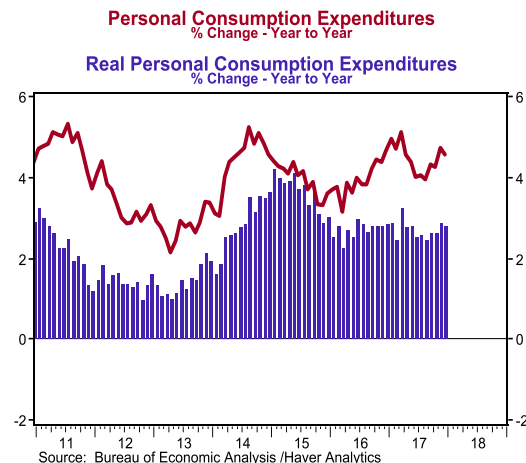


December Personal Income and Consumption

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- Personal income rose 0.4% in December versus a consensus expected 0.3%. Personal consumption increased 0.4% in December, matching consensus expectations. Personal income is up 4.1% in the past year, while spending is up 4.6%.
- Disposable personal income (income after taxes) rose 0.3% in December and is up 3.9% from a year ago. The gain in December was led by private sector wages and salaries as well as interest income.
- The overall PCE deflator (consumer inflation) rose 0.1% in December and is up 1.7% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in December and is up 1.5% in the past year.
- After adjusting for inflation, “real” consumption rose 0.3% in December and is up 2.8% from a year ago.

Implications: It was a strong end to 2017 for consumers, with income and spending both picking up the pace. Personal income increased 0.4% in December, led by rising wages and salaries in the private sector, and has seen a healthy 4.1% gain over the past twelve months. Given the tax cuts signed into law late December, as well as fundamentals that were already improving, expect incomes to continue to grow at a healthy clip in 2018. Some of the best news to come out of the personal income report in 2017 was a slowdown in the growth rate of government transfers. While transfer payments rose 2.8% over the past twelve months, total income grew at a faster 4.1% during the period (and private sector wages and salaries rose 5.2%!), so transfer payments are making up a smaller portion of income than at the start of the year. That said, the surge in government transfer payments during the recession has left government’s share elevated compared to prior decades, and there is plenty of room for transfer benefits to decline further. On the spending side, personal consumption increased 0.4% in December and 4.6% in the past year. Some have bemoaned this rise in spending, suggesting that consumers are digging themselves into a hole. But while consumer debts are at a record high in raw dollar terms, so are consumer assets. Comparing the two, debts are the lowest relative to assets since 2000 (and that’s back during the internet bubble when asset values were artificially high). Meanwhile, the financial obligations ratio – which compares debt and other recurring payments to income – is still relatively low. In other words, consumers still have room to increase spending, and steadily rising incomes plus tax cuts will continue to boost spending power in the months ahead. On the inflation front, the overall PCE deflator rose 0.1% in December and is up 1.7% in the past year. Some might say the PCE series is tainted by including volatile components like food and energy, but “core” prices, which exclude food and energy, are accelerating, as well. Core prices are up at a 1.9% annual rate in the past three months versus a 1.5% gain the past year. While that is modestly below the Fed’s 2% inflation target, the pace of inflation has been rising in recent months and provides clear backing for the Fed to keep raising rates. We still expect three rate hikes in 2018, but the odds of a fourth rate hike are growing.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-17	Nov-17	Oct-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.4%	0.3%	0.4%	4.2%	4.2%	4.1%
Disposable (After-Tax) Income	0.3%	0.3%	0.3%	3.8%	3.4%	3.9%
Personal Consumption Expenditures (PCE)	0.4%	0.8%	0.3%	5.8%	5.9%	4.6%
Durables	0.7%	0.9%	0.4%	8.1%	10.3%	5.5%
Nondurable Goods	-0.2%	1.5%	0.0%	5.3%	8.7%	4.7%
Services	0.5%	0.5%	0.3%	5.6%	4.4%	4.4%
PCE Prices	0.1%	0.2%	0.1%	2.0%	2.4%	1.7%
"Core" PCE Prices (Ex Food and Energy)	0.2%	0.1%	0.2%	1.9%	1.7%	1.5%
Real PCE	0.3%	0.5%	0.1%	3.7%	3.4%	2.8%

Source: Bureau of Economic Analysis