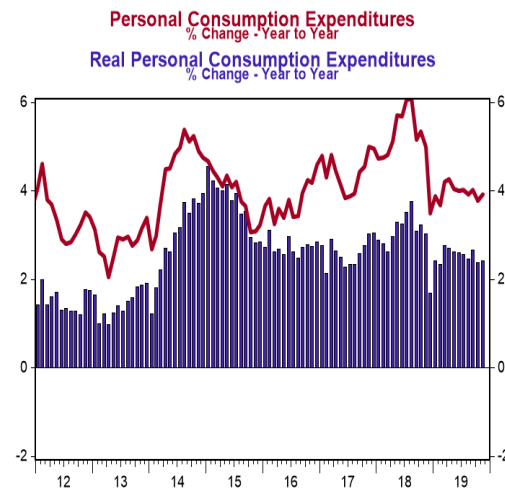


November Personal Income and Consumption

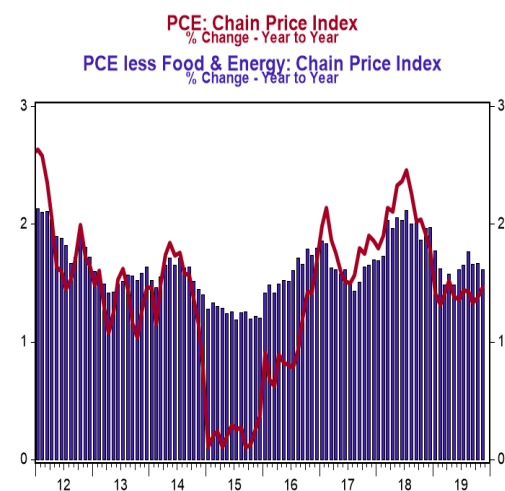
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- Personal income rose 0.5% in November (+0.6% including upward revisions to prior months), beating the consensus expected gain of 0.3%. Personal consumption increased 0.4% in November (also +0.6% with prior revisions), matching consensus expectations. Personal income is up 4.9% in the past year, while spending has increased 3.9%.
- Disposable personal income (income after taxes) rose 0.5% in November and is up 4.6% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.2% in November and is up 1.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in November and is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption increased 0.3% in November and is up 2.4% from a year ago.

Implications: Christmas came early to consumers’ paychecks, and they put their extra income to work. Private-sector wages and salaries rose 0.4% in November (following a 0.5% bump in October), and are up 5.7% in the past year. Incomes were further supplemented by a rise in farm proprietors’ income and interest income. Higher wages, in turn, continue to drive spending, which rose 0.4% in November. Purchases picked up for both goods and services, while consumers still had room left over to put money into savings. Households have de-levered following the recession, bringing financial obligations (think mortgages, car loans, etc.) to near multi-decade lows as a share of after-tax income. Put simply, the strong labor market has more people working more hours for more pay. That math – aided by the improved tax and regulatory environment that went in place in 2018 – provides a strong base for continued economic growth in 2020. One area the Fed has been keeping a keen eye on is inflation, which continues to run below its 2% target. PCE prices rose 0.2% in November and are up 1.5% in the past year. “Core” prices, which exclude the volatile food and energy sectors, rose 0.1% in November and are up 1.6% in the past twelve months. Neither are far from the Fed’s 2.0% target. Add in other reports on the economy like today’s releases on GDP, and we are confident the Fed will remain on pause through at least the end of next year. Strong consumers, rising wages, tame inflation. There is plenty to be jolly about this holiday season. On the manufacturing front, the Kansas City Fed index fell to -8 from -3 in November. This is in-line with other regional surveys showing a modest slowdown in activity in December. Look for this to flow through in the ISM manufacturing report that will kick off the new year.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Nov-19 | Oct-19 | Sep-19 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|-------------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.5% | 0.1% | 0.3% | 3.9% | 4.0% | 4.9% |
| Disposable (After-Tax) Income | 0.5% | 0.0% | 0.4% | 3.8% | 4.4% | 4.6% |
| Personal Consumption Expenditures (PCE) | 0.4% | 0.3% | 0.2% | 3.9% | 4.3% | 3.9% |
| Durables | 1.0% | -0.9% | 1.0% | 4.4% | 4.4% | 3.5% |
| Nondurable Goods | 0.2% | 0.7% | -0.8% | 0.6% | 2.4% | 2.7% |
| Services | 0.4% | 0.4% | 0.3% | 4.8% | 4.8% | 4.3% |
| PCE Prices | 0.2% | 0.2% | 0.0% | 1.6% | 1.6% | 1.5% |
| "Core" PCE Prices (Ex Food and Energy) | 0.1% | 0.1% | 0.1% | 1.3% | 1.9% | 1.6% |
| Real PCE | 0.3% | 0.1% | 0.2% | 2.3% | 2.7% | 2.4% |

Source: Bureau of Economic Analysis