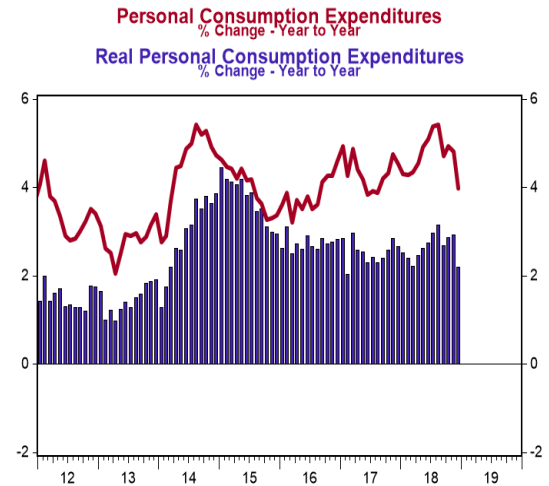


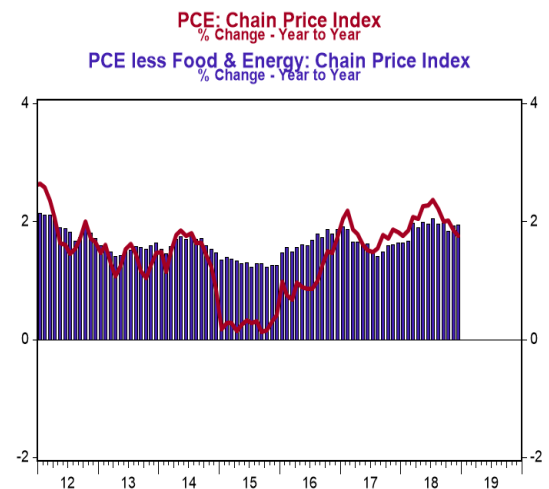
Dec./Jan. Personal Income and Dec. Consumption

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- Personal income rose 1.0% in December (beating the consensus expected gain of 0.4%) but declined 0.1% in January (lagging the consensus expected +0.3%). Personal consumption declined 0.5% in December, falling short of the consensus expected decline of 0.3% (January spending data will be released in next month's report). Personal income (as of January) is up 4.3% in the past year, while spending (as of December) is up 4.0%.
- Disposable personal income (income after taxes) rose 1.1% in December, declined 0.2% in January, and is up 4.4% from a year ago. The gain in December and decline in January were both led by dividend income.
- The overall PCE deflator (consumer prices) 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 1.9% in the past year.
- After adjusting for inflation, "real" consumption declined 0.6% in December, but is up 2.2% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



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Implications: An odd report all-around on personal income and consumption, as the government shutdown resulted in both December and January data on income being released this morning, but only December data on spending (as the BEA waits on the January retail sales report). If only the quirks stopped there. Personal income surged 1.0% in December – the largest single month increase since December of 2012 – while December spending declined 0.5%, the largest single-month decline since September of 2009. Pause and take that in for a moment. Recent data on retail sales and housing starts have been head scratchers given other data (including jobs and earnings reports from retailers) showing virtually the opposite picture. The December spending dip can be, in large part, explained by the relation between the BEA report and the retail sales data used as an input. Garbage in, garbage out. We expect retail sales will either be revised higher or show a steep rebound in the months ahead, which would mean the same for consumer spending numbers. The December jump in income was led by dividends, including the \$11 billion special dividend issued by VMware, which then resulted in a decline in January income as that one-time event rolled off. But strip out dividends and incomes rose a healthy 0.6% in December and grew 0.3% in January. Farmers continue to see increased income thanks to Department of Agriculture subsidy payments, and an annual cost-of-living adjustment to Social Security in January provided temporary boosts. But the real driver of income growth remains private-sector wages and salaries, which rose 0.5% in December, 0.3% in January, and are up 4.4% in the past year. Despite the rise in incomes, consumer spending (apparently) declined 0.5% in December, as household utilities (think electricity and gas) and spending on both durable and nondurable goods led the drop. It's worth noting that, even with the large decline in monthly spending, consumer expenditures are still up a healthy 4.0% in the past year. Suffice it to say we are taking the December spending data with a grain of salt until we see revisions, and we think you should too. Incomes are rising, the job market is strong, and companies continue to report strength in both orders and activity, all signs the economy remains on healthy footing.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-18	Nov-18	Oct-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	1.0%	0.3%	0.5%	7.1%	5.7%	5.0%
<i>Disposable (After-Tax) Income</i>	1.1%	0.3%	0.6%	8.1%	6.0%	5.7%
Personal Consumption Expenditures (PCE)	-0.5%	0.6%	0.7%	2.7%	3.4%	4.0%
<i>Durables</i>	-1.9%	2.1%	0.3%	2.0%	2.3%	2.1%
<i>Nondurable Goods</i>	-1.9%	0.4%	0.9%	-2.6%	-0.1%	2.2%
<i>Services</i>	0.1%	0.4%	0.6%	4.5%	4.6%	4.8%
PCE Prices	0.1%	0.0%	0.2%	1.2%	1.3%	1.7%
<i>"Core" PCE Prices (Ex Food and Energy)</i>	0.2%	0.2%	0.1%	2.0%	1.7%	1.9%
Real PCE	-0.6%	0.5%	0.5%	1.5%	2.0%	2.2%

Source: Bureau of Economic Analysis