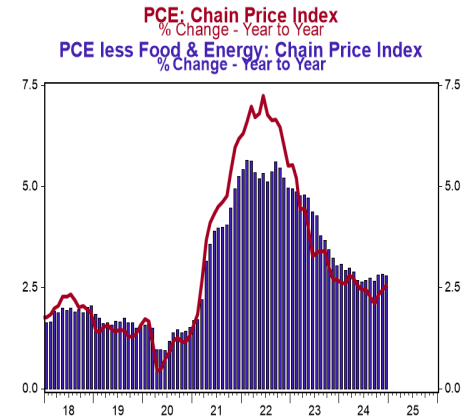


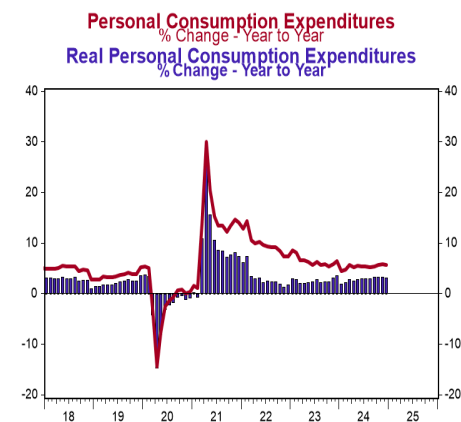
## December Personal Income and Consumption

Andrew Opdyke, CFA – Senior Economist  
 Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Dep. Chief Economist

- Personal income rose 0.4% in December, matching consensus expectations. Personal consumption increased 0.7% in December (+0.9% including revisions to prior months), beating the consensus expected +0.5%. Personal income is up 5.3% in the past year, while spending has increased 5.7%.
- Disposable personal income (income after taxes) rose 0.4% in December and is up 5.0% from a year ago.
- The overall PCE deflator (consumer prices) increased 0.3% in December and is up 2.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in December and is up 2.8% in the past year.
- After adjusting for inflation, “real” consumption increased 0.4% in December and is up 3.1% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



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**Implications:** Consumers ended 2024 on a high note, with strong holiday spending backed by healthy income growth. Unfortunately for the Fed, inflation didn’t take the holidays off. Personal income rose 0.4% in December and is up 5.3% in the past year. Private-sector wages and salaries represented the bulk of income gains in December, up 0.4% on the month and up 5.6% in the past year. That said, government activity continues to run even hotter, as pay in the public sector rose 0.6% in December and is up 6.5% in the past year, hovering near the largest twelve-month increase in decades. At the same time, government benefit payments to individuals are up 8.1% in the past year, also near the largest 12-month increase (excluding the COVID stimulus period) in more than a decade. We don’t think the growth in government pay – or massive government deficit spending – is either sustainable or good for the US economy, which is why we’re hoping recent policy changes in DC represent a shift in thinking on the growth of government. On the spending side, personal consumption jumped 0.7% in December (+0.9% when including upward revisions to prior months) with growth virtually across the board. Spending on services rose 0.6% in December and is up a strong 6.7% from a year ago. Goods spending rose a robust 0.9% in December, but is up a more modest 3.5% from a year ago. Unfortunately, inflation also rose at an above trend rate in December. PCE prices, the Fed’s preferred measure of inflation, increased 0.3% in December and are up 2.6% in the past year, the third month in a row that year-ago readings have ticked higher. And considering that PCE prices rose 2.7% in the twelve-months ending December 2023, it means the Fed made virtually no progress in the inflation flight over the past year. The improvement in “core” prices (which exclude the ever-volatile food and energy categories) wasn’t much better, rising 0.2% in December and up 2.8% versus a year ago, compared to a 3.0% increase for the twelve months ending December 2023. Earlier this week the Fed signaled that they are now in wait and see mode after cutting by 100 basis points in the back half of 2024, saying the path forward for rates is more uncertain, and cuts are likely to move more slowly in 2025. Risks remain that activity in Washington could translate to a pullback in government spending in 2025 and beyond, which may cause short-term economic pain before longer term gain. If the Fed reacts with an overly aggressive path of cuts to offset that pain, it could bring with it a pickup in the M2 measure of money which would lead to a return of inflation pressure. In other recent news on the housing front, pending home sales, which are contracts on existing homes, fell 5.5% in December following a 1.6% increase in November, suggesting a decline in existing home sales (counted at closing) in January.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-24	Nov-24	Oct-24	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.4%</b>	0.3%	0.7%	5.4%	4.5%	5.3%
<b>Disposable (After-Tax) Income</b>	<b>0.4%</b>	0.3%	0.7%	5.3%	4.2%	5.0%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.7%</b>	0.6%	0.5%	7.0%	6.6%	5.7%
<b>Durables</b>	<b>0.6%</b>	2.7%	0.2%	14.7%	11.3%	4.9%
<b>Nondurable Goods</b>	<b>1.0%</b>	0.3%	-0.2%	4.3%	4.6%	2.7%
<b>Services</b>	<b>0.6%</b>	0.4%	0.7%	6.7%	6.5%	6.7%
<b>PCE Prices</b>	<b>0.3%</b>	0.1%	0.2%	2.5%	2.2%	2.6%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.1%	0.3%	2.2%	2.3%	2.8%
<b>Real PCE</b>	<b>0.4%</b>	0.5%	0.2%	4.4%	4.3%	3.1%

Source: Bureau of Economic Analysis