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Data Watch

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November Personal Income and Consumption

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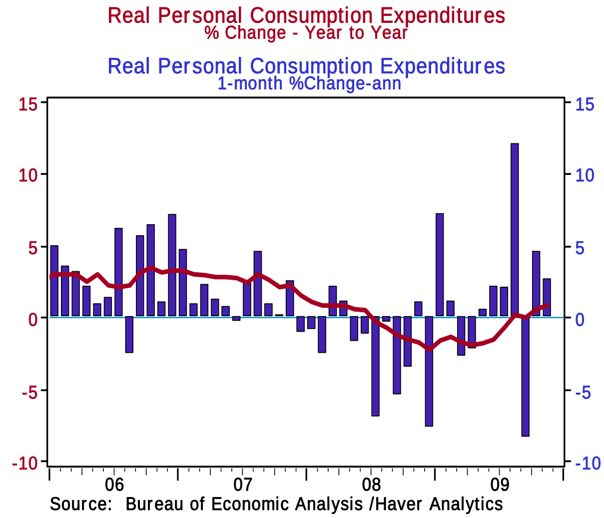
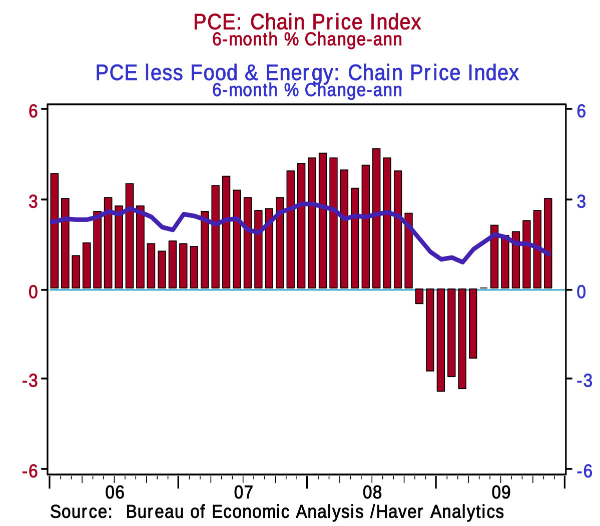
- Personal income was up 0.4% in November while personal consumption increased 0.5%, both a little short of consensus expectations.
- Disposable personal income (income after taxes) was up 0.5% in November, but up a stronger 0.7% including upward revisions to September/October. Disposable income is up 3.1% versus a year ago. Private sector wages and salaries increased for the seventh time in the past eight months and have outpaced inflation over that period.
- The overall PCE deflator (consumer inflation) was up 0.2% in November and is up at a 3.0% annual rate in the past six months. The "core" PCE deflator, which excludes food and energy, was unchanged in November and is up at a 1.2% rate in the past six months.
- After adjusting for inflation, "real" consumption increased 0.2% in November, the sixth gain in the past seven months.





Implications: Incomes are rising and workers are using their earnings to increase consumer spending and improve their balance sheets. Since bottoming in March, compensation for workers (wages, salaries, and benefits, for the private-sector and government, combined) has increased for eight straight months, even as the jobless rate has climbed from 8.9% to 10.0%. Now that unemployment has peaked or is about to, income gains should accelerate. Meanwhile, increases in spending can no longer be attributed to "cash for clunkers." "Real" (inflation-adjusted) spending is up at a 2.4% annual rate versus June, just before "clunkers" started. And yet households are repairing their balance sheets, with more aggressive saving and falling debt levels. The personal saving rate is 4.7% (and has averaged 4.6% over the past twelve months) versus a low of less than 1% in early 2008. The financial obligations of households (debt service plus rents and car leases) are now the smallest share of after-tax income since early 2001. Meanwhile, the stock market is up substantially. Of course, the improvement in household balance sheets has been accompanied by a deterioration of the government's balance sheet, but this problem, if not corrected by spending limits, will have a gradual negative impact on the economy over a long period of time. It is not going to derail the economic recovery anytime in the next couple of years. On the inflation front, overall consumer prices are up at a 3.0% annual rate in the past six months, a warning sign for the Federal Reserve that monetary policy is too loose.

Personal Income and Spending *All Data Seasonally Adjusted*	Nov-09	Oct-09	Sep-09	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**0.4%**	0.3%	0.3%	3.9%	0.9%	-0.3%
Disposal (After-Tax) Income	**0.5%**	0.5%	0.3%	5.1%	1.3%	3.1%
Personal Consumption Expenditures (PCE)	**0.5%**	0.6%	-0.6%	1.8%	5.4%	2.3%
Durables	**1.1%**	2.6%	-8.2%	-17.6%	7.9%	2.5%
Nondurable Goods	**1.5%**	0.3%	0.7%	10.3%	13.2%	4.6%
Services	**0.0%**	0.4%	0.2%	2.5%	2.6%	1.5%
PCE Prices	**0.2%**	0.3%	0.1%	2.4%	3.0%	1.5%
"Core" PCE Prices (Ex Food and Energy)	**0.0%**	0.2%	0.1%	1.2%	1.2%	1.4%
Real PCE	**0.2%**	0.4%	-0.7%	-0.6%	2.3%	0.8%

Source: Bureau of Economic Analysis