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November Personal Income and Consumption

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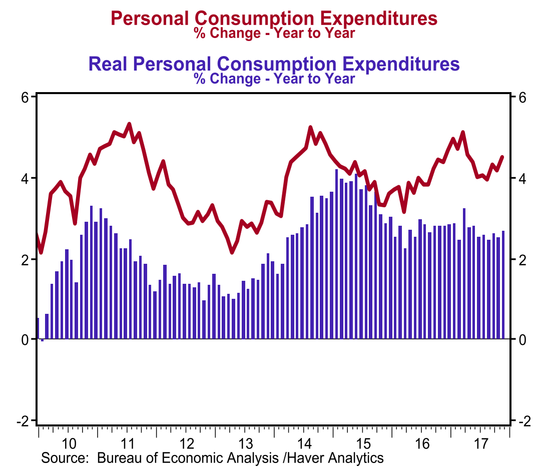
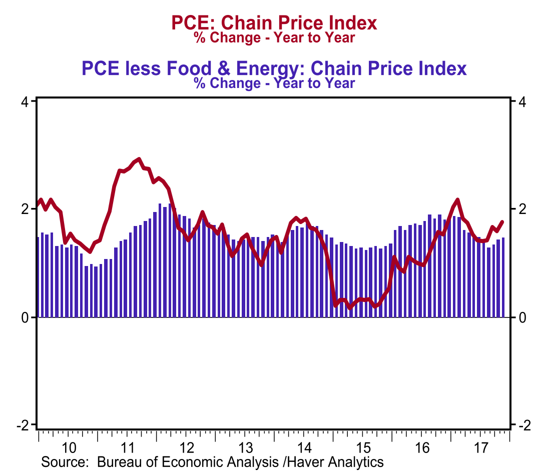
- Personal income rose 0.3% in November versus a consensus expected 0.4%. Personal consumption increased 0.6% in November versus a consensus expected 0.5%. Personal income is up 3.8% in the past year, while spending is up 4.5%.
- Disposable personal income (income after taxes) rose 0.4% in November and is up 3.7% from a year ago. The gain in November was led by private sector wages and salaries.
- The overall PCE deflator (consumer inflation) rose 0.2% in November and is up 1.8% versus a year ago. The "core" PCE deflator, which excludes food and energy, rose 0.1% in November and is up 1.5% in the past year.
- After adjusting for inflation, "real" consumption rose 0.4% in November and is up 2.7% from a year ago.





Implications: The US economy is no longer a Plow Horse and the consumer knows it. Personal spending increased 0.6% in November and was up 4.5% from a year ago, despite lower auto sales. Look for more healthy gains in the year ahead as the tax cut signed this morning combines with fundamentals that were already improving to drive spending upward. Personal income rose 0.3% in November, which was slightly less than expected. However, that includes a drop in government transfer payments. Excluding that drop, income was up 0.4%. Private-sector wages and salaries rose 0.4% in November and are up 4.8% in the past year. While some bemoan that spending has outpaced income growth in the past few months, and has risen at a faster pace in the past year, stories about problems with the consumer are way overblown. Although 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 hovering near the lowest levels of the past 35 years. 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 0.2% in November and is up 1.8% 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 1.8% 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 *All Data Seasonally Adjusted*	Nov-17	Oct-17	Sep-17	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.3%**	0.4%	0.5%	4.7%	3.4%	3.8%
Disposable (After-Tax) Income	**0.4%**	0.4%	0.4%	5.0%	3.0%	3.7%
Personal Consumption Expenditures (PCE)	**0.6%**	0.2%	1.0%	7.5%	5.0%	4.5%
Durables	**0.0%**	0.3%	3.3%	15.0%	7.0%	5.4%
Nondurable Goods	**1.2%**	-0.1%	1.5%	11.1%	7.4%	5.0%
Services	**0.6%**	0.2%	0.5%	5.2%	3.9%	4.2%
PCE Prices	**0.2%**	0.1%	0.4%	3.1%	2.3%	1.8%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.2%	0.2%	1.8%	1.6%	1.5%
Real PCE	**0.4%**	0.0%	0.6%	4.2%	2.6%	2.7%

Source: Bureau of Economic Analysis