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Data Watch

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November Personal Income and Consumption

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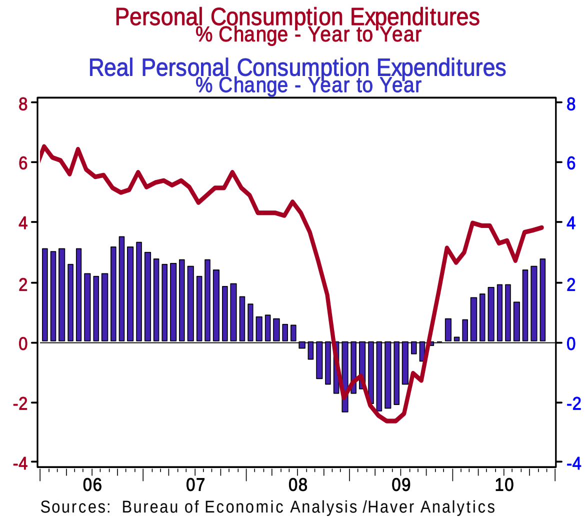
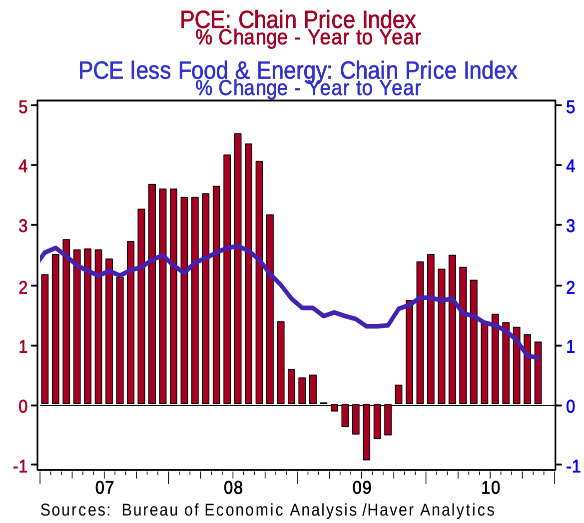
- Personal income increased 0.3% in November versus a consensus expected gain of 0.2%. Personal consumption increased 0.4% versus a consensus expected gain of 0.5%. In the past six months, personal income is up at a 2.7% annual rate while spending is up at a 4.4% rate.
- Disposable personal income (income after taxes) was up 0.4% in November and is up at a 2.1% annual rate in the past six months. The rise in November was largely due to interest income.
- The overall PCE deflator (consumer inflation) increased 0.1% in November and is up 1.0% versus a year ago. The "core" PCE deflator, which excludes food and energy, was also up 0.1% in November and is up 0.8% since last year.
- After adjusting for inflation, "real" consumption was up 0.3% in November (0.5% including upward revisions to prior months), is up at a 3.3% annual rate in the past six months, and at a 4.3% annual rate in the past three months.





Implications: Consumers are buying again and doing it with vigor. "Real" (inflation-adjusted) consumer spending increased 0.3% in November and is up at a 3.3% annual rate in the past six months. This is not an unsustainable or temporary buying binge. Real wages and salaries in the private sector are up at a 2.8% annual rate in the past six months; real profits for small businesses are up at a 4.7% rate. In addition, those touting a "new normal" where the real economy grows 2% or less per year are making a fundamental mistake about deleveraging. Consumer deleveraging may impede spending when the debt reduction begins; deleveraging may also impede spending when the debt reductions accelerate. But deleveraging does not hurt spending when the debt reductions slow down. If a consumer is still paying down debt but is doing so more slowly than last year, her spending increases *faster* than her income, not slower. On the inflation front, consumption prices are up only 1% versus a year ago but seem to be modestly accelerating, with prices up at a 1.3% annual rate in the past three months. The opposite is true if we exclude food and energy. "Core" prices are up 0.8% versus a year ago but up at only a 0.3% annual rate in the past three months. Low core inflation is the excuse the Federal Reserve is using for quantitative easing. In other news this morning, new claims for unemployment insurance declined 3,000 last week to 420,000. Continuing claims for regular state benefits fell 103,000 to 4.06 million. These figures suggest robust growth in private sector payrolls in December.

Personal Income and Spending *All Data Seasonally Adjusted*	Nov-10	Oct-10	Sep-10	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % Change
Personal Income	**0.3%**	0.4%	0.0%	2.8%	2.7%	3.8%
Disposal (After-Tax) Income	**0.3%**	0.3%	-0.1%	2.4%	2.1%	3.4%
Personal Consumption Expenditures (PCE)	**0.4%**	0.7%	0.3%	5.6%	4.4%	3.8%
Durables	**-0.1%**	3.4%	1.7%	21.8%	11.9%	8.4%
Nondurable Goods	**0.7%**	0.9%	0.5%	9.2%	8.2%	5.2%
Services	**0.4%**	0.1%	0.0%	2.1%	2.0%	2.7%
PCE Prices	**0.1%**	0.2%	0.1%	1.3%	1.1%	1.0%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.0%	0.0%	0.3%	0.4%	0.8%
Real PCE	**0.3%**	0.5%	0.2%	4.3%	3.3%	2.8%

Source: Bureau of Economic Analysis