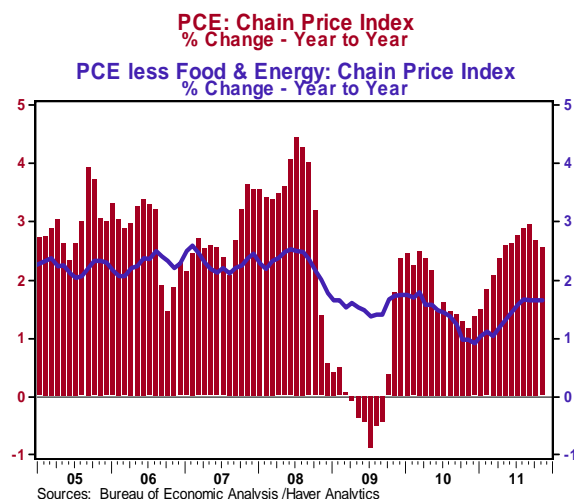
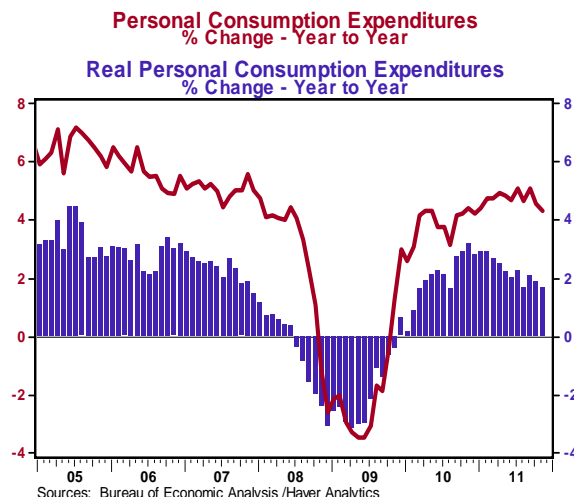


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November Personal Income and Consumption

- Personal income and personal consumption both increased 0.1% in November. The consensus expected a gain of 0.2% for income and 0.3% for consumption. (Including revisions for prior months, income was still up 0.1%, but consumption was unchanged.) In the past year, personal income is up 3.9% while spending is up 4.3%.
- Disposable personal income (income after taxes) was unchanged in November, but is up 2.4% from a year ago. In November, increases in rent, interest, and dividends, were offset by higher tax payments and lower income for private-sector workers and farmers.
- The overall PCE deflator (consumer inflation) was unchanged in November, as lower energy prices offset inflation elsewhere. Prices are up 2.5% versus a year ago. The “core” PCE deflator, which excludes food and energy, was up 0.1% in November and is up 1.7% since last year.
- After adjusting for inflation, “real” consumption was up 0.2% in November and is up 1.7% from a year ago.



Implications: The American consumer is still spending. “Real” (inflation-adjusted) consumer spending was up 0.2% in November and is up 1.7% from a year ago. This is not a consumer “boom” by any stretch of the imagination, but real spending is at a record high and continues to move higher. We think consumer spending will continue to grow at a moderate pace. Although incomes were up only slightly in November, the underlying trend is consistent with growing purchasing power. Real personal income *excluding government transfer payments* is up 2.2% from a year ago. Private-sector wages and salaries are up 4.1% from a year ago, which is faster than inflation. In addition, consumer spending is being supported by the large reduction in households’ financial obligations the past few years. Recurring payments like mortgages, rent, car loans/leases, as well as other debt service, are now the smallest share of after-tax income since 1993. On the inflation front, overall consumption prices are up 2.5% in the past year. However, the Federal Reserve is focused on “core” inflation, which excludes food and energy. These prices are up 1.7% from a year ago, right in the middle of the Fed’s target range of 1.5% to 2%. But, given the loose stance of monetary policy, we expect inflation to get worse in the year ahead, both overall and for the core.

| Personal Income and Spending <i>All Data Seasonally Adjusted</i> | Nov-11 | Oct-11 | Sep-11 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---------------------------------------------------------------------|--------|--------|--------|--------------------------|--------------------------|----------------------|
| Personal Income | 0.1% | 0.4% | 0.2% | 2.4% | 1.4% | 3.9% |
| <i>Disposable (After-Tax) Income</i> | 0.0% | 0.2% | 0.1% | 1.2% | 0.7% | 2.4% |
| Personal Consumption Expenditures (PCE) | 0.1% | 0.1% | 0.7% | 3.8% | 3.3% | 4.3% |
| <i>Durables</i> | 0.8% | 1.2% | 2.9% | 21.2% | 9.9% | 6.8% |
| <i>Nondurable Goods</i> | -0.3% | -0.2% | 1.1% | 2.5% | 2.5% | 6.5% |
| <i>Services</i> | 0.1% | 0.0% | 0.2% | 1.7% | 2.5% | 3.1% |
| PCE Prices | 0.0% | -0.1% | 0.2% | 0.3% | 1.2% | 2.5% |
| <i>"Core" PCE Prices (Ex Food and Energy)</i> | 0.1% | 0.1% | 0.0% | 0.6% | 1.4% | 1.7% |
| Real PCE | 0.2% | 0.2% | 0.5% | 3.5% | 2.1% | 1.7% |

Source: Bureau of Economic Analysis