First Trust DATAWATCH

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December Personal Income and Consumption

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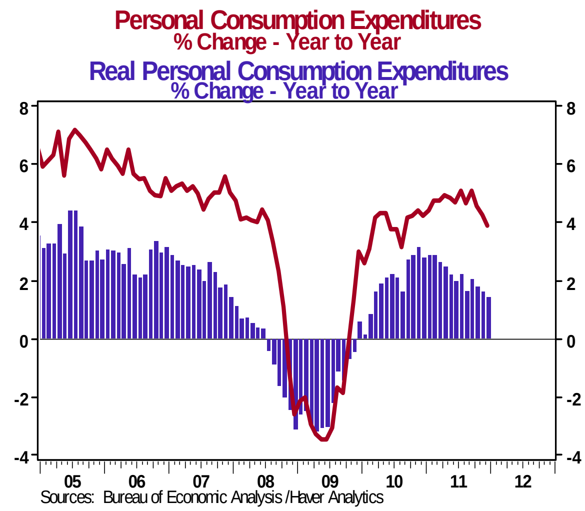
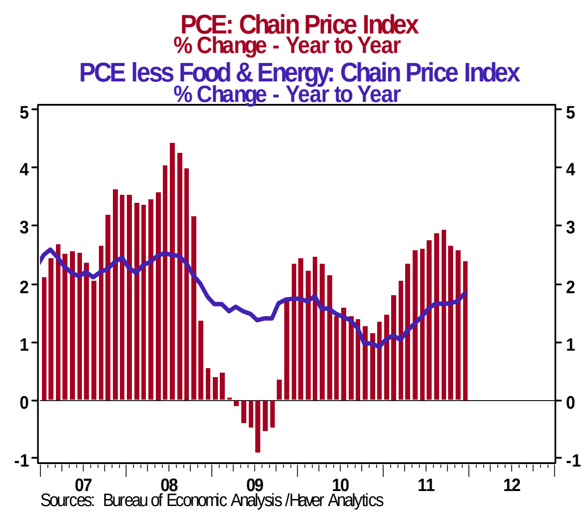
- Personal income increased 0.5% in December while personal consumption was unchanged. The consensus expected a gain of 0.4% for income and 0.1% for consumption. In the past year, personal income is up 3.8% while spending is up 3.9%.
- Disposable personal income (income after taxes) was up 0.4% in December and is up 2.3% from a year ago. Increases in private wages and salaries along with dividends and social security pushed disposable personal income higher in December.
- The overall PCE deflator (consumer inflation) was up 0.1% in December. Prices are up 2.4% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.2% in December and is up 1.8% since last year.
- After adjusting for inflation, "real" consumption was down 0.1% in December, but is up 1.4% from a year ago.





Implications: Despite surveys showing strong consumer spending in December; government data show a temporary lull, but this should not last. Purchasing power is up, even if you exclude government transfer payments. *Excluding transfer payments*, "real" (inflation–adjusted) personal income was up 0.4% in December and up 2.4% from a year ago. Real spending remains near record highs and will continue to move higher. Private-sector wages and salaries are up 4.6% from a year ago, which is faster than inflation. There were additional benefits paid to some social security beneficiaries in December which was due to retroactive payments to recent retirees based on a recalculation of the earnings base. In addition to the gain in wages and salaries, 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. Also, autos are still selling below the pace of scrappage and growth in the driving-age population. This should lead to continued demand in the auto sector in the months ahead. On the inflation front, overall consumption prices are up 2.4% in the past year, above the Fed's supposed target of 2%. "Core" prices are up 1.8% from a year ago, the most since 2008. But, given the loose stance of monetary policy, we expect inflation to accelerate in the year ahead, both overall and for the core.

Personal Income and Spending *All Data Seasonally Adjusted*	Dec-11	Nov-11	Oct-11	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.5%**	0.1%	0.4%	3.6%	2.1%	3.8%
Disposable (After-Tax) Income	**0.4%**	0.0%	0.2%	2.3%	1.3%	2.3%
Personal Consumption Expenditures (PCE)	**0.0%**	0.1%	0.1%	0.7%	3.6%	3.9%
Durables	**-0.4%**	0.3%	1.1%	4.3%	10.9%	5.5%
Nondurable Goods	**-0.4%**	-0.3%	-0.1%	-2.9%	3.2%	5.5%
Services	**0.2%**	0.2%	0.0%	1.5%	2.7%	3.1%
PCE Prices	**0.1%**	0.0%	0.0%	0.1%	1.7%	2.4%
"Core" PCE Prices (Ex Food and Energy)	**0.2%**	0.1%	0.1%	1.4%	1.5%	1.8%
Real PCE	**-0.1%**	0.1%	0.1%	0.7%	1.9%	1.4%

Source: Bureau of Economic Analysis

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