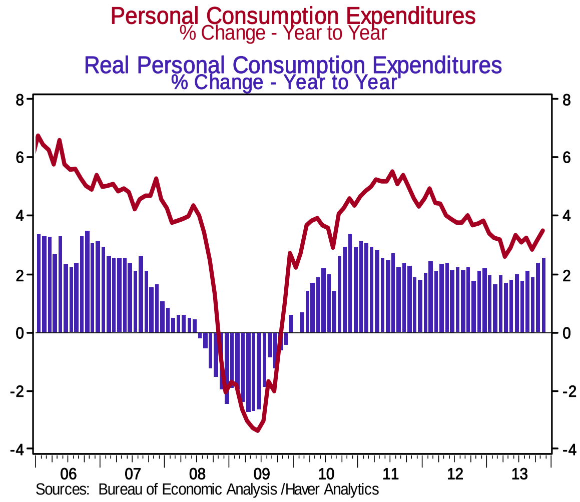
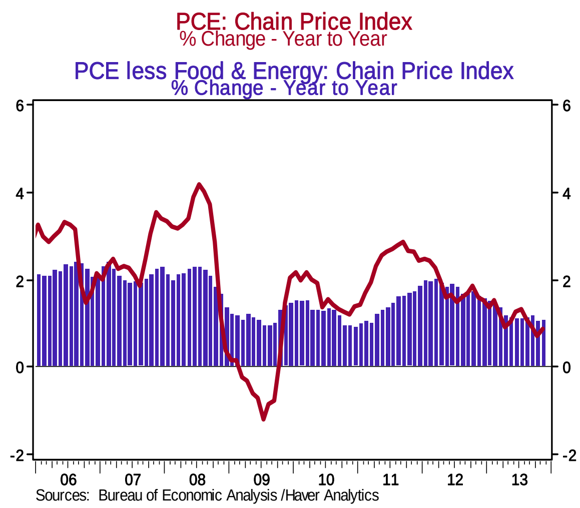
December 23, 2013 • 630.517.7756 • www.ftportfolios.com

November Personal Income and Consumption

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- Personal income rose 0.2% in November, coming in below the consensus expected gain of 0.5%. Personal consumption rose 0.5%, matching consensus expectations, but was up 0.9% including revisions to prior months. In the past year, personal income is up 2.3% while spending is up 3.5%.
- Disposable personal income (income after taxes) increased 0.1% in November and is up 1.5% from a year ago. The gain in income in November was driven by gains in wages and salaries and personal dividend income. Farm income fell in November.
- The overall PCE deflator (consumer prices) was unchanged in November but is up 0.9% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.1% in November and is up 1.1% in the past year.
- After adjusting for inflation, "real" consumption was up 0.5% in November (up 0.9% including revisions to prior months) and is up 2.6% from a year ago.





Implications: Spending surged in November and was revised up in September and October, back when the media was obsessed with stories of how a partial government shutdown was going to hurt consumer spending. In the past six months, consumer spending is up at a 4.8% annual rate; in the past three months, it's up at a 5.1% rate. We need to keep this in mind the next time politicians and pundits try to scare the public about lower government spending. Plugging these data into our models suggests "real" (inflation-adjusted) spending, will be up at a 4% annual rate in Q4 versus the Q3 average. Factoring in a potential slowdown in inventory accumulation, it now looks like real GDP is growing at a 2% annual rate in Q4. Personal income rose 0.2% in November, which was less than the consensus expected. But farm income, which can be volatile, fell again in November, holding the overall number down. Income is up a tepid 2.3% versus a year ago. But income gains were very strong late last year, temporarily making year-ago comparisons look weak. In the meantime, private-sector wages & salaries continue to grow and are up at a 3.9% annual rate in the past six months. Expect both income and spending to keep growing. Job growth will continue and, as the jobless rate gradually declines, employers will offer higher wages. Meanwhile, consumers' financial obligations are hovering at the smallest share of income since the early 1980s. (Financial obligations are money used to pay mortgages, rent, car loans/leases, as well as debt service on credit cards and other loans.) On the inflation front, the Federal Reserve's favorite measure of inflation, the personal consumption price index, was unchanged in November. Core consumption prices were up 0.1%. Overall consumption prices and core prices, which exclude food and energy, are up 0.9% and 1.1% respectively in the past year, both below the Fed's 2% target. However, we think inflation will move higher over the next year. QE was a mistake; the sooner it's over the better.

Personal Income and Spending *All Data Seasonally Adjusted*	Nov-13	Oct-13	Sep-13	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**0.2%**	-0.1%	0.4%	2.3%	3.2%	2.3%
Disposable (After-Tax) Income	**0.1%**	-0.2%	0.5%	1.7%	3.3%	1.5%
Personal Consumption Expenditures (PCE)	**0.5%**	0.4%	0.3%	5.1%	4.8%	3.5%
Durables	**1.9%**	1.0%	-1.2%	6.9%	8.4%	5.7%
Nondurable Goods	**-0.4%**	0.4%	1.1%	4.6%	5.6%	2.6%
Services	**0.6%**	0.3%	0.3%	5.0%	3.9%	3.4%
PCE Prices	**0.0%**	0.0%	0.1%	0.4%	1.4%	0.9%
"Core" PCE Prices (Ex Food and Energy)	**0.1%**	0.1%	0.1%	1.1%	1.3%	1.1%
Real PCE	**0.5%**	0.4%	0.2%	4.7%	3.4%	2.6%

Source: Bureau of Economic Analysis