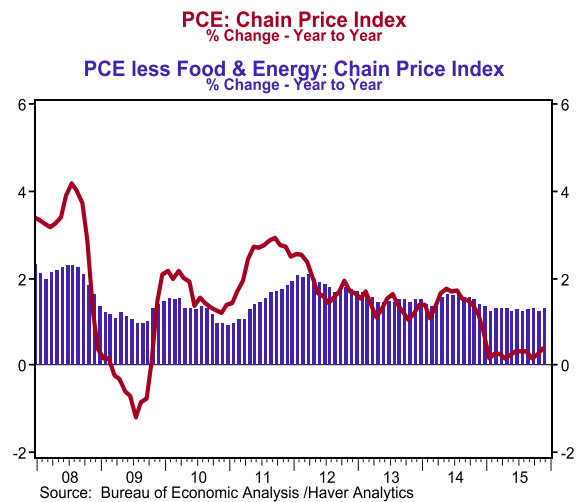
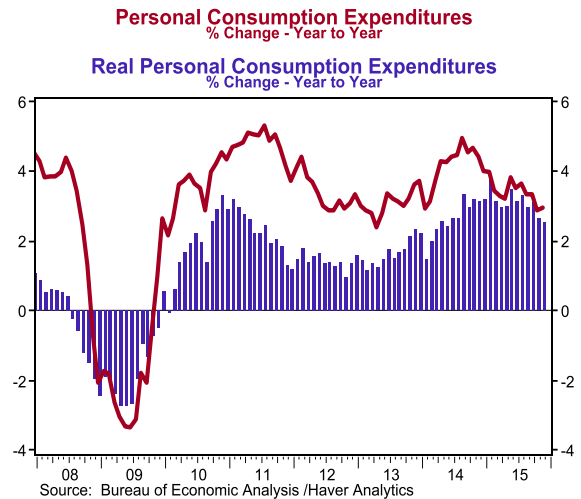


November Personal Income and Consumption

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- Personal income increased 0.3% in November, beating the consensus expected 0.2%. Personal consumption also rose 0.3% in November, matching consensus expectations. Personal income is up 4.4% in the past year, while spending is up 2.9%.
- Disposable personal income (income after taxes) increased 0.3% in November and is up 3.9% from a year ago. The gain in November was led by private-sector wages and salaries. Most other categories had small gains, with the exception of asset-related income, driven by declines in both interest and dividends.
- The overall PCE deflator (consumer prices) was unchanged in November and is up 0.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.1% in November and is up 1.3% in the past year.
- After adjusting for inflation, “real” consumption rose 0.3% in November and is up 2.5% from a year ago.



Implications: It looks like happy holidays for workers, as rising wages put a little extra cash in the pocket heading into the busiest shopping season of the year. Personal income rose 0.3% in November, beating consensus expectations, and is up 4.4% in the past year. The increase in personal income was once again led by private-sector wages and salaries, which was helped by a large one-time bonus to United Auto Workers employees as part of recent contract ratifications. Meanwhile, despite the surge in auto sales (which likely continued in December), consumer spending is up a lukewarm 2.9% from a year ago. In other words, the increase in consumer spending in the past year isn't due to some sort of unsustainable credit binge. Instead, it simply reflects higher purchasing power by American workers. They're producing more, earning more, and spending more as a result. Supply creating its own demand. The main driver of the income gains has been private-sector wages and salaries, which were up 0.5% in November and are up 4.9% from a year ago. The only bad news in this report – and sadly it's nothing new – was the continued failure to make progress against government redistribution. Although unemployment compensation is hovering around the lowest levels since 2007, overall government transfers to persons are up 5.2% in the past year, largely driven by the Obamacare-related expansion of Medicaid. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment comp – were roughly 14% of income. In early 2010, they peaked at 18.5%. Now they're around 17%, but not falling any further. Redistribution hurts growth because it shifts resources away from productive ventures and, among those getting the transfers, weakens the incentive to produce. This is why we have a Plow Horse economy, not a Race Horse economy. On the inflation front, the PCE deflator, the Fed's favorite measure, was unchanged in November. Although it's only up 0.4% from a year ago, it continues to be held down by falling energy prices. The “core” PCE deflator, which excludes food and energy, is up 1.3% from a year ago. That's also below the Fed's 2% inflation target, but we expect some acceleration in the coming year. As soon as energy prices stop falling, inflation is going to pick up. Together with continued employment gains, this supports the case for slow and steady rate hikes (think 0.25% at every other Fed meeting) in 2016.

Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Nov-15	Oct-15	Sep-15	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.3%	0.4%	0.2%	3.7%	4.4%	4.4%
Disposable (After-Tax) Income	0.3%	0.4%	0.2%	3.5%	4.4%	3.9%
Personal Consumption Expenditures (PCE)	0.3%	0.0%	0.2%	2.2%	3.0%	2.9%
Durables	0.7%	-0.3%	0.5%	3.4%	2.0%	3.0%
Nondurable Goods	0.5%	-0.1%	-1.0%	-2.2%	1.1%	-0.1%
Services	0.2%	0.1%	0.5%	3.4%	3.7%	3.9%
PCE Prices	0.0%	0.1%	-0.1%	0.1%	0.7%	0.4%
"Core" PCE Prices (Ex Food and Energy)	0.1%	0.0%	0.2%	1.3%	1.3%	1.3%
Real PCE	0.3%	0.0%	0.2%	2.1%	2.3%	2.5%

Source: Bureau of Economic Analysis