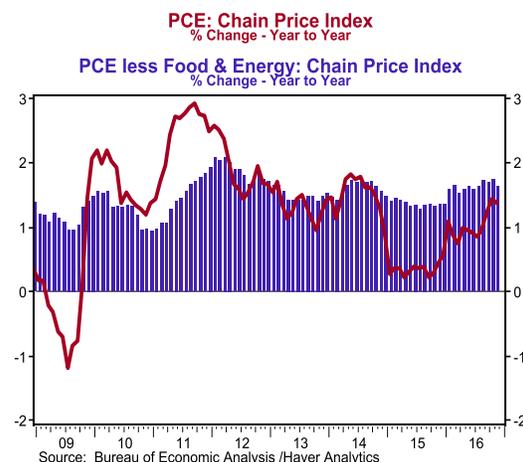
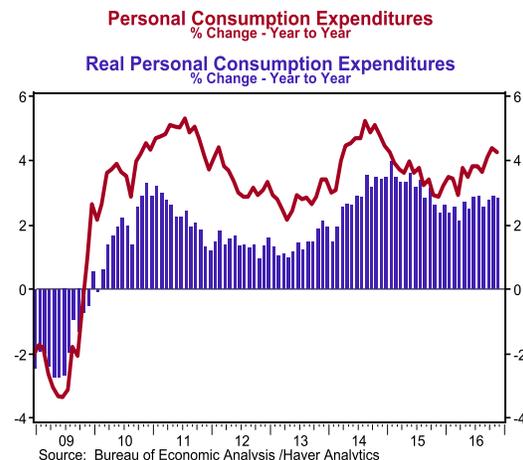


November Personal Income and Consumption

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- Personal income was unchanged in November (-0.2% including revisions from prior months), coming in below the consensus expected 0.3% gain. Personal consumption rose 0.2% in November (+0.4% including revisions from prior months), versus a consensus expected 0.3%. Personal income is up 3.5% in the past year, while spending is up 4.2%.
- Disposable personal income (income after taxes) was unchanged in November but is up 3.7% from a year ago.
- The overall PCE deflator (consumer inflation) was unchanged in November but is up 1.4% versus a year ago. The “core” PCE deflator, which excludes food and energy, was unchanged in November but is up 1.6% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in November and is up 2.8% from a year ago.

Implications: Another solid month of spending gains for consumers, while income gains took a breather. Incomes were unchanged in November as declines in private sector wages & salaries and government transfer payments offset gains in most other categories. Still, incomes are up 3.5% in the past year and up at the same annual rate in the past three months, even with the unchanged number today. We expect continued gains in the year ahead as the labor market continues to tighten. In turn, consumer spending will continue to grow as well. In fact, consumption has been accelerating, up 5.3% at an annual rate over the past three months versus a gain of 4.2% from a year ago, signaling an acceleration going into the important Christmas shopping season. Today’s report also shows inflation continuing to trudge higher. Even though the PCE deflator, the Fed’s favorite measure of inflation, was unchanged in November and up only 1.4% from a year ago, this is a sharp jump from just 0.5% inflation in the year ending in November 2015. In fact, in the past three months PCE prices are up at a 2.1% annual rate, faster than the Fed’s long-term target of 2%. Meanwhile, the “core” PCE deflator, which excludes food and energy, is up 1.6% from a year ago. We expect continued acceleration in year-ago comparison measures of inflation over the next several months. Together with continued employment gains, these figures support the case for further short-term rate hikes by the Fed in the coming year. The one consistent dark cloud in the income reports has been government redistribution. While unemployment compensation is the lowest since 2001, overall government transfers to persons are up 3.5% in the past year. Before the Panic of 2008, government transfers – Medicare, Medicaid, Social Security, disability, welfare, food stamps, and unemployment insurance – 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 work incentives. That’s why we have a Plow Horse economy, not a Race Horse economy.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Nov-16	Oct-16	Sep-16	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	0.0%	0.5%	0.4%	3.5%	3.8%	3.5%
<i>Disposable (After-Tax) Income</i>	0.0%	0.5%	0.3%	3.2%	3.5%	3.7%
Personal Consumption Expenditures (PCE)	0.2%	0.4%	0.7%	5.3%	4.6%	4.2%
<i>Durables</i>	-0.6%	1.1%	2.1%	10.9%	6.9%	4.2%
<i>Nondurable Goods</i>	0.1%	1.1%	0.8%	8.6%	4.0%	2.8%
<i>Services</i>	0.3%	0.1%	0.4%	3.4%	4.4%	4.7%
PCE Prices	0.0%	0.3%	0.2%	2.1%	1.7%	1.4%
<i>"Core" PCE Prices (Ex Food and Energy)</i>	0.0%	0.1%	0.1%	1.0%	1.4%	1.6%
Real PCE	0.1%	0.1%	0.5%	3.2%	2.8%	2.8%

Source: Bureau of Economic Analysis