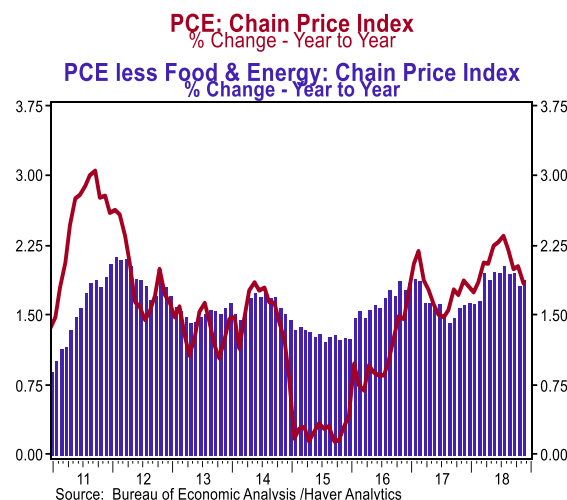
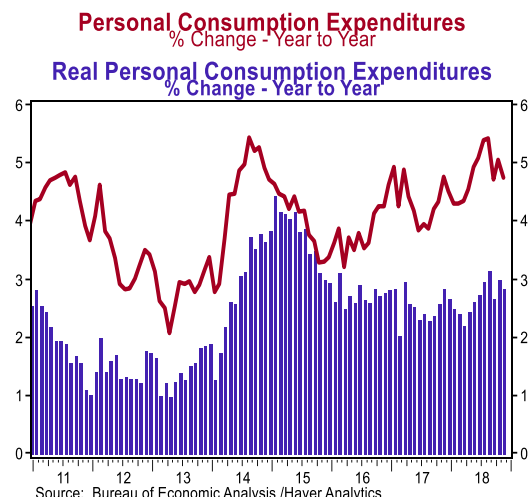


## November Personal Income and Consumption

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- Personal income rose 0.2% in November, lagging the consensus expected 0.3%. Personal consumption increased 0.4%, beating the consensus expected gain of 0.3%. Personal income is up 4.2% in the past year, while spending is up 4.7%.
- Disposable personal income (income after taxes) rose 0.2% in November and is up 4.7% from a year ago. The gain in November was led by private-sector wages and salaries and income from farms.
- The overall PCE deflator (consumer prices) rose 0.1% in November and is up 1.8% versus a year ago. The “core” PCE deflator, which excludes food and energy, also rose 0.1% in November and is up 1.9% in the past year.
- After adjusting for inflation, “real” consumption rose 0.3% in November and is up 2.8% from a year ago.

**Implications:** Consumers are set for a very Merry Christmas. Although consumer incomes rose a tepid 0.2% in November – and would have risen only 0.1% were it not for a boost from the Department of Agriculture’s program to assist farmers affected by trade retaliations – incomes are up a healthy 4.2% in the past year and up 4.7% after-taxes. Meanwhile, consumer spending rose 0.4% in November, led by household utilities (think electricity and gas), recreation, and health care. While consumption growth has trended moderately above income growth over the past few years, this follows a period between 2010 and 2015 where income growth outpaced the growth in spending. As a result, consumer balance sheets remain very healthy, with plenty of room for increased spending in the year ahead. The best news in today’s report was that government transfers were flat in November. Unfortunately, government transfers are still up 5.0% in the past year, as a pickup in Medicare costs have more than offset the decline in spending on unemployment claims thanks to the strong labor market. And that growth of 5% means government transfers have grown faster than wages and salaries over the past twelve months, so transfer payments are making up a larger – and already too high – portion of income. While others worry about “policy instability,” rate hikes, or a trade war, the continued growth in government spending is what we are most concerned with over the long run. On the inflation front, the PCE deflator rose 0.1% in November and is up 1.8% in the past year. “Core” prices, which exclude food and energy, are up 1.9% in the past year. Inflation will be a key focus of the Fed (and the markets) as we head into 2019. While both the labor market and inflation readings are in-line with the Fed targets to support further rate hikes, long term rates (on 10 to 30-Year Treasury securities) have remained stubbornly low. So as we discussed in [our commentary following Wednesday’s Fed statement](#), the Fed will likely move slower on rates than the economic data justify. If the economy performs as we expect next year, and if the 10-year yield rises to 3.4%, as well, the Fed should ultimately end up having room for at least two, and perhaps three, rate hikes in 2019.



Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Nov-18	Oct-18	Sep-18	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	0.2%	0.5%	0.2%	3.8%	4.2%	4.2%
<b>Disposable (After-Tax) Income</b>	0.2%	0.5%	0.2%	4.0%	4.1%	4.7%
<b>Personal Consumption Expenditures (PCE)</b>	0.4%	0.8%	0.1%	5.2%	5.3%	4.7%
<b>Durables</b>	0.9%	0.8%	-0.2%	6.3%	4.6%	2.8%
<b>Nondurable Goods</b>	0.2%	0.9%	-0.2%	3.7%	3.7%	4.2%
<b>Services</b>	0.4%	0.7%	0.3%	5.6%	5.9%	5.2%
<b>PCE Prices</b>	0.1%	0.2%	0.1%	1.5%	1.5%	1.8%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	0.1%	0.1%	0.2%	1.7%	1.5%	1.9%
<b>Real PCE</b>	0.3%	0.6%	0.0%	3.7%	3.8%	2.8%

Source: Bureau of Economic Analysis