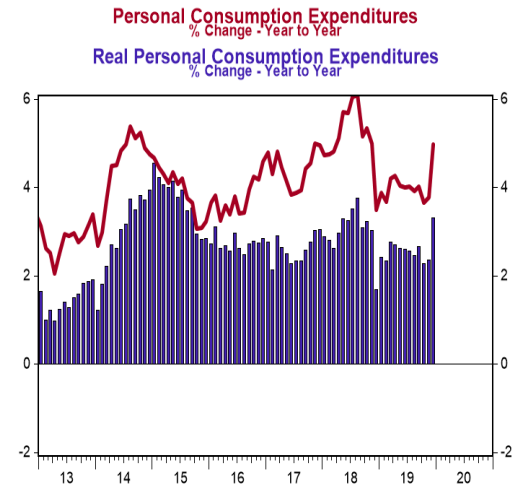


## December Personal Income and Consumption

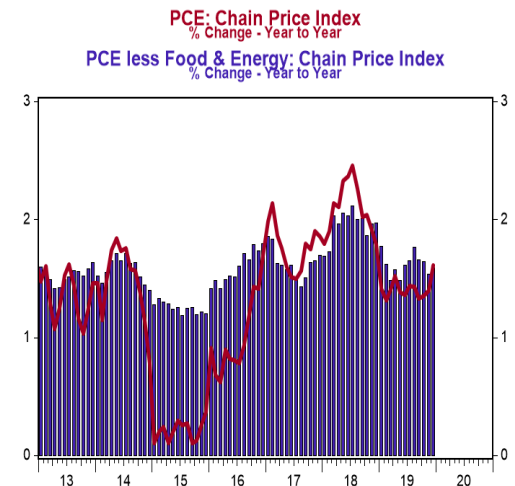
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- Personal income rose 0.2% in December (+0.1% including downward revisions to prior months), lagging the consensus expected gain of 0.3%. Personal consumption increased 0.3% in December (+0.2% with prior revisions), matching consensus expectations. Personal income is up 3.9% in the past year, while spending has increased 5.0%.
- Disposable personal income (income after taxes) rose 0.2% in December and is up 3.6% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.3% in December and is up 1.6% versus a year ago. The “core” PCE deflator, which excludes food and energy, rose 0.2% in December and is also up 1.6% in the past year.
- After adjusting for inflation, “real” consumption increased 0.1% in December and is up 3.3% from a year ago.

**Implications:** Personal income and spending continued to rise in December, closing out 2019 on a high note. For the year, personal income rose a healthy 3.9%, while spending increased 5.0%, tied for the largest annual increase going back to 2006. Within income, gains for both December and full-year 2019 were led by private-sector wages and salaries, which rose 0.3% in December and are up 5.5% over the past twelve months. Incomes were further supplemented in December by a rise in interest income which helped offset a decline in farm proprietors’ income (due to lower subsidy payments from the Department of Agriculture to farmers impacted by the trade skirmish). Higher incomes, in turn, continue to drive spending, which rose 0.3% in December. Purchases picked up for both goods and services, as a drop in spending on autos and energy products (both gasoline and home utilities fell in December) was more than made up for by increased spending on medical care, food, and recreation. With spending up faster than income over the past year, some may be concerned that consumers are getting stretched, but that isn’t the case. Households de-levered following the recession, bringing financial obligations (think mortgages, car loans, etc.) to near multi-decade lows as a share of after-tax income. Put simply, the strong labor market has more people working more hours for more pay, and that has fueled the growth in spending. And that math - aided by the improved tax and regulatory environment that went in place in 2018 – provides a strong base for continued economic growth in 2020. One area the Fed has been keeping a keen eye on is inflation, which continues to run below its 2% target. PCE prices rose 0.3% in December and are up 1.6% in the past year. “Core” prices, which exclude the volatile food and energy sectors, rose 0.2% in December and are also up 1.6% in the past twelve months. In other words, inflation is still below but not far from the Fed’s 2.0% target. Strong consumers, rising wages, tame inflation, and reports on the economy that continue to show steady growth, all suggest the Fed will remain on pause through at least the end of the year. On the manufacturing front, the Chicago PMI index declined to 42.9 from 48.2 in December. This comes in contrast to data from other regional manufacturing surveys which show a pickup in activity, and is likely influenced lower by issues at Chicago-based Boeing. As a group, they suggest next week’s national ISM report will show a rise to 48.7 in January from 47.2 in December.



Source: Bureau of Economic Analysis/Haver Analytics



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Personal Income and Spending <i>All Data Seasonally Adjusted</i>	Dec-19	Nov-19	Oct-19	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
<b>Personal Income</b>	<b>0.2%</b>	0.4%	0.1%	2.9%	3.3%	3.9%
<b>Disposable (After-Tax) Income</b>	<b>0.2%</b>	0.4%	0.0%	2.4%	3.7%	3.6%
<b>Personal Consumption Expenditures (PCE)</b>	<b>0.3%</b>	0.4%	0.2%	4.0%	4.0%	5.0%
<b>Durables</b>	<b>-0.8%</b>	1.0%	-1.2%	-4.2%	1.0%	6.0%
<b>Nondurable Goods</b>	<b>0.9%</b>	0.2%	0.7%	7.3%	3.8%	6.3%
<b>Services</b>	<b>0.3%</b>	0.4%	0.3%	4.3%	4.5%	4.5%
<b>PCE Prices</b>	<b>0.3%</b>	0.1%	0.2%	2.4%	1.7%	1.6%
<b>"Core" PCE Prices (Ex Food and Energy)</b>	<b>0.2%</b>	0.1%	0.1%	1.7%	1.7%	1.6%
<b>Real PCE</b>	<b>0.1%</b>	0.3%	0.0%	1.6%	2.2%	3.3%

Source: Bureau of Economic Analysis