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November Personal Income and Consumption

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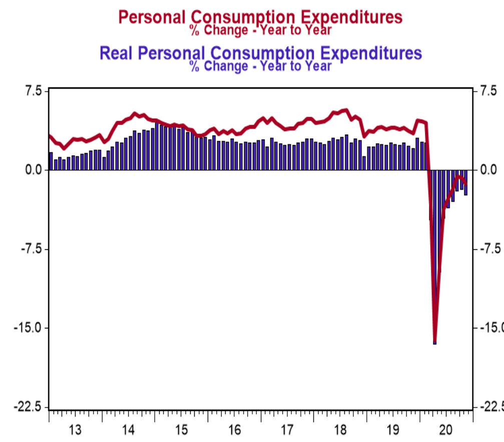
- Personal income declined 1.1% in November (-1.2% including revisions to prior months), lagging the consensus expected -0.3%. Personal consumption fell 0.4% in November (-0.5% including prior month revisions), falling short of the consensus expected -0.2%. Personal income is up 3.8% in the past year, while spending has declined 1.3%.

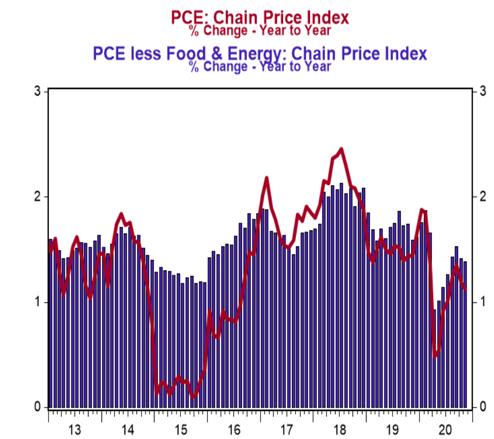
- Disposable personal income (income after taxes) declined 1.2% in November, but is up 4.3% from a year ago.

- The overall PCE deflator (consumer prices) was unchanged in November and is up 1.1% versus a year ago. The "core" PCE deflator, which excludes food and energy, was also unchanged in November and is up 1.4% in the past year.

- After adjusting for inflation, "real" consumption declined 0.4% in November, and is down 2.4% from a year ago.



Source: Bureau of Economic Analysis/Haver Analytics



Source: Bureau of Economic Analysis/Haver Analytics

Implications: Both incomes and spending took a dip in November, as a combination of stimulus roll-offs and a slowdown in consumer purchases (in part, due to a return of economic restrictions) served as headwinds. That said, the details of today's report were better than the headline suggests. While a decline in Paycheck Protection Program (PPP) loans and a slowdown in payments to farmers through the Coronavirus Food Assistance Program led the drop on the income side, it was partially offset by a 0.5% rise in private-sector wages and salaries (these wages are up 13.3% from the April bottom and have now breached the February mark to set a new all-time high). Income from wages and salaries are a far more sustainable long-term driver for the economy than government stimulus, which is really just borrowing spending activity from the future. Yes, it looks like more stimulus out of Washington is on its way, but as we peer into 2021, the best economic tailwind for the economy comes not from our politicians, but from the near miraculous scientific achievements that now have COVID-19 vaccines being distributed across the country. It takes getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus has and will continue to be a band-aid to tidy over until the real healing takes place. Like income, spending also fell in November. But after declining by 18.6% in March and April, total spending is just 2.1% below the January high, and down 1.3% versus a year ago. The slowdown in spending in November was led by goods, as autos (-3.6%), and clothing & footwear (-3.9%) were key drivers. Spending on services – down 0.2% in November – was driven by household utilities (-6.5% due to lower outlays on electricity and natural gas, a result of temperatures being above normal), as well as a slowdown in spending on restaurants (-3.6%) and hotels & motels (-8.7%), which reflect the impacts of re-introduced restrictions as COVID-19 cases rose in November. With incomes falling faster than spending in November, the saving rate declined to a (still elevated) 12.9%. This is down from 33.7% back in April, but still well above "normal" levels. On the inflation front, PCE prices were unchanged in November, are up 1.1% from a year ago, but up at a faster 2.5% annualized rate in the past six months. Core prices, which exclude food and, more importantly, the very volatile energy component, were also unchanged in November, and are up 1.4% from a year ago, but have likewise accelerated of late, up 2.3% annualized over the past six months. We expect inflation will trend higher in the months ahead, moving toward – and then above – the 2.0% year-to-year pace that historically stood as the Fed's target, though the Fed changed that target this year to allow inflation to run above trend for a prolonged period of time without pressuring them to lift the federal funds rate. In other words, don't expect the faster pace of inflation to mean monetary policy will be tightening any time soon.

Personal Income and Spending *All Data Seasonally Adjusted*	Nov-20	Oct-20	Sep-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**-1.1%**	-0.6%	0.8%	-4.0%	-7.3%	3.8%
Disposable (After-Tax) Income	**-1.2%**	-0.7%	0.8%	-4.9%	-9.4%	4.3%
Personal Consumption Expenditures (PCE)	**-0.4%**	0.3%	1.3%	4.8%	22.4%	-1.3%
Durables	**-1.7%**	0.8%	0.8%	-0.5%	28.8%	13.0%
Nondurable Goods	**-0.6%**	-0.6%	1.8%	2.5%	15.7%	3.8%
Services	**-0.2%**	0.5%	1.2%	6.6%	23.6%	-4.9%
PCE Prices	**0.0%**	0.0%	0.2%	0.8%	2.5%	1.1%
"Core" PCE Prices (Ex Food and Energy)	**0.0%**	0.0%	0.2%	0.8%	2.3%	1.4%
Real PCE	**-0.4%**	0.3%	1.1%	4.0%	19.4%	-2.4%

Source: Bureau of Economic Analysis